

**ECONOMIC AND COMMUNITY
REVITALIZATION ACTIVITY**

**URBAN INSTITUTE HOUSING
COMPONENT**

FINAL REPORT

Prepared for



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Summary

The Urban Institute (UI) is a sub-grantee to Mercy Corps under a Cooperative Agreement with the United States Agency for International Development (USAID) for the Economic and Community Revitalization Activity (ECRA). The Mercy Corps Cooperative Agreement commenced in April 2001. UI, which is responsible for implementing the Housing Component of ECRA, began work in May 2001 and concluded its responsibilities at the end of April 2004.

The Final Report contains some background on the Housing Component's inception, a review of its implementation and assessment of results, and some concluding recommendations and related observations.

UI's original Scope of Work (SoW) called for a limited housing program, which included preparing a Housing Assessment for the 11 ECRA Partner Municipalities; issuing requests for assistance to international and Croatian non-governmental organizations (NGOs) for housing-related activities and awarding sub-grants for the selected activities; and providing technical assistance to the sub-grantees and monitoring their performance. However, based on the findings of the Housing Assessment, USAID authorized a housing demonstration program (which eventually became the NHS program) and a housing loan guarantee fund in conjunction with the GoC's relocation/repossession of private property rights program (which eventually became the DCA program).

HIGHLIGHTS OF THE NHS

The NHS Program included three components:

- Owner-Controlled Reconstruction of 100 Category IV to VI Houses: Demonstration of the Applicability of Beneficiary Vouchers
- Self-Selected, Permanent Accommodations for 100 Beneficiaries: Demonstration of an Approach Promoting Voluntary Relocation of "Temporary Occupants"
- Development Credit Authority (DCA) Program: Home Purchase and Property Improvement Loans—\$35 million in US Government loan guarantee authority

Component One—Owner-Controlled Reconstruction:

Objective—To reconstruct 100 severely damaged homes (Category IV to VI) in Gvozd, Okucani, and Vojnic (and, later, Kistanje) with the active involvement of their owners. Owners' involvement ranged from input into reconstruction designs, to performing some of the work themselves, to participating in construction progress inspections and signing-off on final acceptance of reconstruction works.

Results and Main Findings:

- **Reconstruction**—One hundred severely damaged homes identified by the NHS program were reconstructed. Because program funds were adversely affected by the devaluation of the dollar, only 98 homes were reconstructed using NHS funds. NHS identified and negotiated with another donor, Norwegian People's Aid, to complete reconstruction of the homes of the final two beneficiary households.
- **Beneficiary Identification**—The identification of beneficiaries, carried out by the International Catholic Migration Commission, was much more difficult than anticipated; 449 households were processed in order to enroll 100 participants in the program; few were in the preferred category of working age families with children:
 - Many potential beneficiaries were still living in Bosnia-Herzegovina (BiH) and Serbia and were not interested in returning to their municipalities of origin in the ASSC.
 - Some potential beneficiaries' owned homes in isolated or mined areas not within the scope of the program.
 - Most of the returning households in the program were composed of elderly members (almost 82 percent of the NHS beneficiaries had a head of household age 55 or older).
- **Voucher Value**—The voucher value was established by public tender, managed by Arbitr-Samariter-Bund (ASB), the construction manager. With assistance from ASB, beneficiary households decided how to apply the voucher value to reconstruct their homes: (1) to have UI hire the general contractor to do all of the work or (2) to perform some work themselves (self-help), at the values established by the public tender.

Beneficiary Involvement:

- **Self-Help**—Fourteen percent (14 households) chose to do part of the work, which is substantially fewer than originally anticipated. In part this was due to the fact that, on average, beneficiaries were older than the ideal target groups for the program and found the physical requirements of self-help challenging.
- **Beneficiary Change Requests**—Beneficiaries were given the opportunity to request changes to the reconstruction designs. Some changes were made during the initial beneficiary reviews of the designs and some were negotiated ad hoc in the field. The changes ranged from minor modifications such as relocating a door or window, which the contractor performed at no cost, to more substantial changes such as increasing the height of the house, a major change, which the owners negotiated with the contractor and paid for separately.
- **Final Inspections**—Final inspections, and acceptance of the work completed, were performed by the beneficiaries, ASB, the UI field supervisor and the engineer appointed by the Ministry of Public Works, Reconstruction, and Construction (MPWRC).



Household Surveys:

- **Beneficiary Survey¹**
 - Beneficiaries were highly satisfied with the pace, progress, and quality of the reconstruction
 - Beneficiaries were moderately interested in self-help (level varied by municipality)
 - The main interest of beneficiaries was to have their houses reconstructed regardless of the level of personal involvement
 - There was interest by beneficiaries in receiving additional financing to complete work not covered under reconstruction
 - 82 percent of NHS beneficiaries were age 55 or older
- **Survey of Households from the Government of Croatia (GoC) Reconstruction Program:²**
 - GoC beneficiaries were satisfied with the pace and progress of the reconstruction
 - GoC beneficiaries would recommend the GoC program to other potential returnees
 - GoC beneficiaries would have liked more personal inputs into the reconstruction process

There was very little difference between the NHS and GoC program interviewees with respect to satisfaction levels or age profile (71.5 percent of GoC beneficiaries and 82 percent of NHS beneficiaries were age 55 or older). NHS beneficiaries expressed a slightly higher satisfaction level on reconstruction quality and progress, but the difference was not statistically significant. The GoC program appears to operate satisfactorily for most beneficiaries. One of the premises for the NHS housing demonstration was anecdotal report from the Housing Assessment work that indicated beneficiary dissatisfaction with the quality of construction, but the survey results suggest that such feelings may not have been widespread.

Construction cost comparison:

MPWRC	UI				
Average Cost*	Average Cost**	<i>Okucani</i>	<i>Gvozd</i>	<i>Vojnic</i>	<i>Kistanje</i>
HRK 215,703	HRK 149,175	HRK 152,090	HRK 152,588	HRK 156,508	HRK 134,473
55 m ²	53 m ²	51 m ²	50 m ²	51 m ²	58 m ²

*Average per unit cost estimate for a 55m² house reconstruction (i.e., for a three-member household) in 2001

**Average per unit actual reconstruction costs for beneficiary households for NHS (2003-2004)

¹ Results from ASB's survey of 39 of the 98 reconstruction beneficiaries.

² Results from UI's survey of 43 households whose homes had been reconstructed by the GoC's program in or near the ECRA demonstration sites. UI tried to locate 100 GoC beneficiaries, but a large number of reconstructed houses turned out to be empty. Given UI and ICMC experience in the ECRA communities, we expect that this is due to the poor economic condition of the region; however, it may be that the survey is biased towards those with a higher satisfaction with the reconstruction (i.e., that those with a lower satisfaction level left).

While we cannot say definitively why GoC costs are higher, the GoC's likely explains much of the difference practice of a) having contractors assessed VAT, b) making partial payments with shares from companies in the Privatization Fund, and c) making significantly late payments to contractors. However, some may also be due to ASB's efficiency in procurement.

Recommendations:

- Given the comparable satisfaction levels under both the GoC and NHS programs and the low participation in the self-help option, GoC should not revise its current procedures in order to allow for self-help in the regular reconstruction program. However, the GoC could probably achieve some modest increase in beneficiary satisfaction by increasing formal opportunities for beneficiaries to participate. This could be done at little cost through staff training and changes to procedures.
- The GoC could benefit from contracting out the entire construction management process of housing reconstruction to a qualified firm, such as ASB.
- Given its substantial budget deficits, the GoC would be well-served to change its construction payment procedures and establish the true costs of housing reconstruction; this would enable the GoC to reduce the projected borrowing and budget allocations for this program.
- The International Community or the GoC may want to conduct more extensive surveys of potential reconstruction beneficiaries to determine if there really is significant demand for return.³

Component Two: Self-Selected, Permanent Accommodations

Objective—To work with 100 temporary occupants to gain voluntary compliance with relocation from homes owned by households who fled during the war (Croat refugees from BiH and Serbia, and internally displaced households, collectively referred to as temporary occupants) and to enable ethnic Serb refugee homeowners (returnees) to repossess their homes from the temporary occupants. Prior to the program, there was tremendous resistance on the part of temporary occupants to relocate; it was the NHS hypothesis that giving the temporary occupants choice in the selection of Alternative Accommodations would result in much greater voluntary relocation.

Results and Main Findings:

Relocation—The program was halted at the end of August 2003 (See below). Of the 24 paired beneficiary households (that is temporary occupants and returnees repossessing the house in which the temporary occupants lived), 14 families had received approval to move into their self-selected houses,

³ This recommendation is based on the observations of both ICMC (with respect to identifying potential beneficiaries for the NHS program) and the UI surveyors (with respect to locating GoC reconstruction beneficiaries). ICMC found it very difficult to find potential beneficiaries who were willing to commit to return because of the poor economic situation; the UI surveyors found it very difficult to identify reconstruction beneficiaries actually living in the reconstructed homes (See footnote 2).



purchased by APN. With respect to the remaining 10 households, APN (the GoC real estate agency) was still negotiating to purchase six houses; negotiations failed to result in purchase for the other four houses. The four households for whom APN could not purchase homes are still eligible for the GoC Relocation Program and will be offered houses by the Government.

Beneficiary Identification—It was not possible to identify and enroll 100 pairs of temporary occupants and returnees under the program. The major problem was that the GoC counterpart agency, MPWRC's Office of Displaced Persons and Refugees (ODPR), was not able to supply accurate lists of paired beneficiaries in a timely manner, in part due to changes in the way that GoC enforced eligibility rules and in part due to unverified data (incorrect addresses, deaths, etc.).

Institutional Factors—During the course of implementing this component, there were several substantial institutional changes implemented by the GoC. Most significant for the demonstration project was the increased enforcement of eligibility rules for permanent accommodations. To qualify for permanent housing rights in Croatia a family could not own a house elsewhere. Many families owned houses in BiH and at first were able to hide that ownership. As diplomatic relations between GoC and BiH improved, GoC cooperation with BiH improved and ODPR was able to learn about Bosnian property owned by the potential beneficiaries. Many were thus disqualified for the NHS program because they were only eligible for temporary housing in Croatia. Secondly, the GoC informed temporary occupants that, if they did not comply with relocation, they would lose all housing benefits, which reduced resistance to relocation.

Self-Help—Households were eager to be participating in finding their own relocation houses and frequently found houses that APN did not realize were available. However, some beneficiaries found it difficult to locate a suitable house because they did not want to move to a different ethnic community or because they wanted to live in the center of town. In many areas the available centrally located houses were damaged or expensive.

Conclusion—Given the increased enforcement of eligibility rules for permanent accommodations, which significantly reduced the number of household potential eligible for permanent relocation by the GoC, GoC is unlikely revise its current procedures in order to allow for self-help in the relocation effort. That said, despite the small sample, the GoC might bear in mind the favorable response from beneficiaries to the self-help opportunity for housing policy and program design in the future.

Component Three—Development Credit Authority (DCA) Program: Home Purchase and Property Improvement Loans

Objectives:

- **Increase ASSC Residents Access to Private Bank Financing**—To help demonstrate the business potential for banks of expanded lending to borrowers in the war-damaged areas. In so doing, to lay the groundwork for expanded access of households in the war-damaged areas to credit for home purchases and property improvements.
- **Promotion of Economic Development in the ASSC Through Property improvement Loans**—Through improved credit access, to help demonstrate the potential for increasing the



effective demand for homebuilding and property improvement services and residential building material in the war-damaged areas, and thereby to contribute to local economic development and job creation. Further, by encouraging banks to allow borrowers to use their homes and farms as collateral, expand loan opportunities for micro and SME business development and expansion.

- **Assist the GoC to Finance Relocation Housing**—The Home Purchase component would enable temporary occupant tenants to purchase their homes from the GoC and then the GoC could use these recaptured funds to purchase additional relocation housing.

Results and Main Findings:

- Development Credit Authority (DCA) Background, Preparation, and Approval: UI contributed to the approval of DCA in Croatia with the following papers/activities:
 - 2001 Housing Assessment
 - Initial concept paper for DCA
 - Economic Viability Analysis and the Financial Viability Analysis for the Mission's application for the DCA program
 - Negotiations with Privredna banka Zagreb (PBZ)

The DCA Guarantee Agreement was signed by USAID and PBZ on September 26, 2002. The DCA program provides for a total of \$35 million in USAID loan guarantee authority. It originally included two components:

- **Home Purchase Mortgages**—for qualified relocatees under the GoC's program of repossession of property rights—\$20 million in USAID guarantee authority. Purchase mortgages could be up to thirty years.
- **Property Improvement Loans**—or residents of the Areas of Special State Concern (ASSC)—\$15 million in USAID guarantee authority. Property improvement loans could be for a maximum term of seven years.

UI's role under ECRA was to provide policy formulation and monitoring and conduct a demonstration marketing program.

Cancellation of the Home Purchase Mortgage Component—The GoC was expected to issue a State Decree on the sale of State-owned property to allow eligible tenants to purchase their State-owned residences. Issuance of the decree was delayed in the political process of obtaining concurrence by the Sabor and other ministries. As a result of the delay, the Home Purchase Mortgage component was canceled by USAID in February 2003 and the Property Improvement Loan component of the DCA program was approved for implementation only in March 2003.

Loans—As of March 15, 2004 (10 months into implementation), 361 loans had been approved, with a principal amount of \$2,202,400 (about 30 percent first DCA tranche).



DCA Demonstration Marketing Program—Surveys conducted by UI in the preparation of the DCA planning revealed that there was potentially substantial qualified borrower demand for DCA loans in the ASSC, but that the vast majority of residents in the ASSC had either never accessed bank credit or had not for many years. UI therefore proposed that community outreach could be instrumental in expanding borrower awareness about the desirability of DCA loans and facilitate the application process to increase the success rate in being approved for DCA loans. UI also expected that PBZ could learn from the community outreach approach, which was potentially applicable to all of its bank products.

Policy Formulation/Advice:

Flexible Loan Criteria—One of DCA's initial objectives, which has been achieved, was to encourage PBZ to introduce more flexible loan origination criteria to the Croatian banking sector. UI initially proposed changes to the DCA loan origination criteria and most of these recommendations were adopted by PBZ. As a result, many of the terms PBZ initially specified for DCA were less restrictive than PBZ's regular lending terms, including:

- PBZ provided a loan option that does not require guarantors, co-debtors or bank deposit. The property and creditworthiness of the borrower could serve as sufficient collateral.
- Unemployed homeowners, homeowners with periodic income (such as farmers) and homeowners with informal sector or pension income could secure a loan if they have a creditworthy co-debtor.
- Borrowers could be up to 70 years old at the end of the loan term.
- The interest rate was about 15 percent less than other similar loans.

Since the signing of the DCA Agreement, similar, less restrictive terms have been introduced for all PBZ loans. Even some of the terms that had been designated as special for the DCA program are now available in other loan products, e.g., option for loans without guarantors or co-debtors and 70-year-old borrowers.

Addressing obstacles in loan origination—UI DCA Information Officers observed that the major obstacles to loan origination were (a) the inability of borrowers to produce certified property title as proof of ownership due to out-of-date or missing land records and (b) the inability of borrowers to obtain qualified guarantors for loans, (c) the requirement that salaried borrowers transfer accounts to PBZ.

UI made additional recommendations to PBZ to further liberalize their underwriting criteria and removing or reducing these and other impediments cited by potential borrowers to Information Officers. PBZ's Management Board approved these recommended changes in April 2004, which will improve access to DCA loans and may pave the way for PBZ to adopt these criteria for its regular home loan programs. Recently approved changes include:

- Removing the requirement of transferring bank account in which salary is received (by borrower or, if no borrower salary, but guarantor/co-debtor) to PBZ
- Allowing home owners to be borrowers even if not creditworthy or do not fulfill age requirement if a qualified member of the household is a co-debtor



- Removing clear title certificate requirement for loans up to 5,000 EUR and allowing borrowers to apply with submission of cadastral certificate or the Ministry Decision on Reconstruction and the statement of ownership
- Making DCA loans available to State tenants with submission of the State document on permanent tenancy right
- Expanding use of DCA loans for micro, SME and agricultural businesses
- Extending loan term up to 10 years for loans over 5,000 EUR

Field experience gained under the Marketing Plan also led to recommendations to USAID for clarifying, with PBZ, eligible loan uses for SME and agricultural business under DCA.

DCA monitoring and survey⁴

PBZ retail offices—There were differing attitudes amongst PBZ retail offices toward the DCA. Where an office was totally within the ASSC, significant interest was experienced in originating DCA loans. Where offices served communities substantially outside the ASSC, considerably less interest in the DCA was reported.

The distribution of DCA loan originations indicates that most loan activity is in Eastern Slovenia and larger municipalities and less activity occurred in the severely economically depressed small rural municipalities. This was expected and confirmed by the data provided by PBZ. Distribution of loan activity was (as of March 15, 2004):

PBZ Region	No. of Loans	\$ Originated
Karlovac	59 Loans	\$328,624
Sisak	49 Loans	\$275,241
Osijek	116 Loans	\$825,109
Slavonski Brod	6 Loans	\$ 38,814
Kutina	114 Loans	\$628,104
Valpovo	4 Loans	\$ 28,757
Gospic	6 Loans	\$ 32,505
Dubrovnik	2 Loans	\$ 11,591
Split	5 Loans	\$ 33,656

Loan amounts—The average loan amount was \$5,974 or less than Euro 5,000. One of the main reasons why most loans remained under Euro 5,000 was that these loans did not require a mortgage. Another major reason is that many households in the ASSC do not have sufficient incomes to support higher loan amounts, with 48 percent borrowers indicating that they would have wanted to borrow more

⁴ Results from UI's survey of 163 DCA borrowers who had obtained loans through November 2003 and monthly data on borrowers reported to UI by PBZ.



money than they obtained under the DCA loan, 31 percent indicating that their incomes would not support a higher loan amount.

Loan uses—PBZ conducted its own survey to ascertain whether or not borrowers were using DCA loan proceeds for the original purposes stated on their loan applications. PBZ reported that they found complete adherence by borrowers in use of DCA loans for the stated purposes. This finding was confirmed in the UI survey of borrowers.

Banking Experience—34 percent are first-time borrowers or have not sought a bank loan for many years.

Borrower Income:

- 16 percent -- income under 2,000 HRK/month
- 61.5 percent -- income between 2,001- 5,000 HRK/month
- 15.5 percent -- income over 5,001 HRK/month
- 7.2 percent -- no information

Borrower Gender: 40 percent female; 60 percent male

Borrower Age:

- 5.5 percent are younger than 30
- 18 percent are between 31 and 40
- 39.6 percent are between 41 and 50
- 31.8 percent are over 50

Economic Development:

- 94.1 percent of borrowers spent over 50 percent of loan proceeds on procuring building materials, equipment, etc., in their municipality
- 71.3 percent of borrowers indicated that DCA loan proceeds were used to pay for local tradespersons
- 41 percent of borrowers indicated that they would not have undertaken the property improvements without the DCA loan
- 52 percent of borrowers indicated that the property improvements funded by the DCA loan would have been on a smaller scale or over a longer period if they had not received the DCA loan

Recommendation—Reinstate the DCA Home Purchase Mortgage component to allow the GoC to sell State-owned housing to tenants (not just temporary occupants) with bank mortgages to finance the acquisitions and use the sale proceeds to purchase relocation housing. The GoC enacted the enabling Decree to implement this program in March 2003.

HIGHLIGHTS OF RELATED POLICY RESEARCH AND ADVICE

UI undertook considerable technical assistance to MPWRC on issues related to the implementation of NHS and DCA. Much of the technical assistance has had a positive effect on MPWRC's housing policy for war-affected areas and for preparing for the DCA.

TA encompassed:

- Financing strategies for relocation housing
- Reducing deep, untargeted rent subsidies provided to tenants in State-owned housing and instituting cost recovery as the basis for setting rents
- Structuring purchase discounts for tenants in State-owned housing under the GoC Decree
- Recommending replacement of the DCA Home Purchase Mortgage component, terminated by USAID, with a State Mortgage Guarantee pilot program for State-owned housing sales to tenants

Results

Financing Strategy and Rent Policy—UI's early-on financing strategy recommendations resulted in the DCA Home Purchase component and the GoC adopting a Decree for providing purchase incentives for tenants in State-owned housing in the ASSC. UI assistance in rent policy formulation resulted in the GoC moving toward a policy of cost recovery in rents.

Title Insurance—UI collaborated with UNDP to initiate a demonstration project related to property title insurance. UI provided substantial background information and discussed a structure for a guarantee fund so that UNDP could proceed with preparation of a funding proposal for prospective European donors. With this proposal, UNDP obtained funding of 250,000 EUR from the Norwegian Government to finance a Property Title Insurance Guarantee Fund. Negotiations are still underway on Croatia osiguranje's (the largest insurance company in Croatia) proposal to initiate a property title insurance demonstration program, with up to four participating banks.

RECOMMENDATIONS FOR CONTINUED USAID ASSISTANCE

Through the ECRA housing component, UI has gained in-depth knowledge of the GoC's housing reconstruction and temporary occupant relocation/repossession of property rights programs. It has also produced insights into the problems of the real estate sector in accessing bank financing using properties as collateral for bank loans, which particularly affects SME and agricultural businesses seeking to be formed or to expand. Further, the experiences gained have given insight into problems banks confront on expanding loans to the real estate sector, especially in the ASSC. The problems with real estate lending have a particularly negative effect on economic development in the ASSC and should be addressed along with other strategies to promote SME and agricultural development in the ASSC.

Based on the insights gained by UI under ECRA, the following are recommendations to USAID/Croatia on (a) assisting the process of refugee returns and reintegration, (b) strategies to improve



access to bank loans by improving utilization of real estate as collateral, especially for SME and agricultural development projects, and (c) new strategies to assist the banking sector to strengthen its lending practices and protect the banking sector from future potential crises.

Assisting the Process of Refugee Returns and Reintegration

The main assistance USAID can provide to the GoC to assist with promoting refugee returns and reintegration is to provide technical assistance to the relevant new ministry or ministries charged with housing reconstruction and relocation programs in developing a financing strategy for reconstruction and relocation housing. The main technical constraint on completing housing reconstruction and providing appropriate relocation housing for temporary occupants appears to be the huge costs involved to undertake these programs during a time when the GoC is experiencing protracted deficits and is attempting to reduce recurrent budget expenditures and borrowing.

As noted above, a first step in this process would be to reinstate the DCA Home Purchase Mortgage component to allow the GoC to sell State-owned housing to tenants (not just temporary occupants) with bank mortgages to finance the acquisitions and use the sale proceeds to purchase relocation housing. A second step would be to assist the relevant ministry (ies) with financing strategies to complete housing reconstruction.

Strategies to Improve Access to Bank Loans Utilizing Real Estate as Collateral

There are two widespread problems affecting real estate and bank lending that could be addressed with technical assistance by USAID. The two problems are (a) lack of clear property title and (b) antiquated property appraisal practices in Croatia that do not meet international standards and are recognized by banks as being inaccurate to properly estimate property values.

New Strategies to Assist Banks to Strengthen Lending Practices and Protect the Banking Sector from Potential Future Crises

There are two strategies that USAID might consider to spread risk from property loans/increase favorable loan terms and to cope with foreign exchange risks on property loans. These strategies are (a) creation of a secondary mortgage market and (b) development of workout strategies in the advent of substantial and sudden devaluation of the HRK to cope with the foreign currency clauses in most mortgages.

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BACKGROUND

Original Scope of Work

The original Scope of Work (SoW) for the UI Housing Component provided for a limited housing program, which included:

- Preparing a short Housing Assessment as the framework for Undertaking housing activities in the 11 ECRA Partner Municipalities
- Issuing requests for assistance (RFA) to international and Croatian NGOs for housing-related activities (including work with refugee returns) in the ECRA Partner Municipalities and award sub-grants for the selected activities
- Provide technical assistance to and monitor international and Croatian NGO sub-grantees for the selected housing activities with ECRA Partner Municipalities

The SoW also called for a UI Resident Advisor to be in-country for one year and then to provide limited technical assistance and monitoring on a short-term basis over the course of the next two years. Additional technical assistance was to be provided by other UI experts. Mercy Corps was to engage a Housing Officer for the three-year Housing Component. The Housing Officer began work in August 2001. The intention was for the Housing Officer to assume day-to-day responsibilities at the end of the first year.

Origin of the New Housing Solutions Program and DCA in Croatia:

The Housing Assessment Report—was completed by UI in September 2001. It contained an extensive analysis of the Croatian Housing Sector and, in particular, housing issues in the Areas of Special State Concern (ASSC), which encompass mainly the war-affected areas of Croatia and is where the ECRA Partner Municipalities are located. Four of the 11 ECRA Partner Municipalities were selected as a representative sample and a detailed profile of housing and economic conditions in these four municipalities was included. Research for the *Housing Assessment* revealed that housing could not be considered in isolation; other factors in the ASSC and nationally needed to be analyzed to get a more complete and accurate picture of housing conditions. As a result, the Housing Assessment also contained a) social and political overview, b) economic overview, c) local government overview and d) financial sector overview.

The Housing Assessment—also identified 11 opportunity areas for USAID to consider in order to improve housing conditions in the ASSC and nationwide. 6 of the 11 opportunity areas eventually became the basis for a much more extensive assistance program by USAID, consisting of the New Housing



Solutions (NHS) program and the Development Credit Authority (DCA) program. The opportunity area recommendations also served as the basis for UI's continuing technical assistance to the Ministry of public works, Reconstruction, and Construction (MPWRC), the Government of Croatia (GoC) counterpart agency for the ECRA Housing Component. The following is a synopsis of the six recommended opportunity recommendations that led to further USAID and UI actions.

Opportunity 1: Financial Strategy for GoC Reconstruction and Permanent Accommodations.

This recommendation resulted in UI preparation of a Financing Strategy for relocation housing for MPWRC and, subsequently, the Home Purchase Mortgage component of the DCA.

Opportunity 2: Housing Vouchers for Provision of Permanent Accommodations and Reconstruction. This recommendation resulted in the NHS program reconstruction and relocation components introducing voucher-like beneficiary self-help activities.

Opportunity 3: Guarantee Fund to Assist Households in War-Affected Areas to Access Market-Based Home Improvement Loans. This recommendation became the basis for the Property Improvement Loan component of the DCA.

Opportunity 4: Technical Assistance to Land Registries.

Opportunity 5: Establish a Title Guarantee Fund (Title Insurance). Opportunities 4 and 5 recommendations resulted in a study by an outside expert on the applicability of private title insurance in Croatia, establishment of a Property Title Insurance Guarantee Fund under UNDP, funded by a European donor agency, and a proposed program for title insurance to be initiated by Croatia's largest insurance company. Property title insurance would enable property owners to access bank loans without court certified property title.

Opportunity 6: Strengthening Market-Based Housing Finance Nationwide by Establishing a Mortgage Guarantee Fund. This recommendation also influenced initiation of the Home Purchase Mortgage Component of the DCA and technical assistance to MPWRC on establishing a pilot State Mortgage Guarantee program for tenant purchase of State-owned housing in the ASSC.

Based on the *Housing Assessment*, USAID/Croatia requested that UI perform an analysis of how vouchers might be used to improve on both the GoC's direct reconstruction of war-damaged houses and its provision of relocation housing without any beneficiary participation. This analysis resulted in the "*Housing Voucher Program for Croatia: Concept Paper*," which was submitted to USAID/Croatia in September 2001. In November 2001, UI, under the auspices of USAID/Croatia, made a series of presentations to the USAID Mission, MPWRC and the International Community on using housing vouchers to improve the GoC's implementation of war-related housing programs. Based on the favorable reception to housing vouchers, the USAID Mission requested further assistance from UI in developing concepts for a housing demonstration program.

The USAID Mission Director was also interested in pursuing the potential of a DCA.



Expanded Tasks for the Housing Component

The USAID Mission saw the voucher concept as the basis for a more proactive role in housing reconstruction and repossession of property rights. From September through December 2001, UI prepared analyses and concept papers for USAID/Croatia on a housing demonstration program (which eventually became the NHS program) and a housing loan guarantee fund in conjunction with the GoC's relocation/repossession of private property rights program (which eventually became the DCA program). USAID/Croatia made a final decision to provide funding for a demonstration program in December 2001.

In November 2001, the USAID Mission Director presented the proposed USAID housing assistance program to the Minister of MPWRC; UI assisted in the preparations for the meeting. The proposed USAID housing assistance program included the housing demonstration and consideration of housing loan guarantees. The Minister responded very favorably to the concepts proposed by the Mission Director, particularly the housing loan guarantees and reconstruction assistance. In December 2001, Mercy Corps submitted a proposal to USAID/Croatia, subsequently approved by the Mission, to complete the remaining project design work for a Housing Demonstration Program under the ECRA Housing Component. The Housing Demonstration Program was to include:

Reconstruction Vouchers. Reconstruction of 100 severely war-damaged houses in two to three ECRA Partner Municipalities.

Alternative Accommodations Vouchers. Assistance to 100 temporary occupant beneficiaries in two to three ECRA Partner Municipalities in selecting their own relocation housing for purchase by the GoC.

Alternative Accommodations Purchase Mortgage Loans (DCA). Financing the purchase of relocation housing by temporary occupants.

Property Improvement Loans (DCA). Financing property improvements for residents of the ASSC to demonstrate to banks that the ASSC is a productive market area and to promote economic development through increased construction activities in the ASSC.

USAID and UI staff met with Ministry and APN officials (APN is the Government real estate agency) to negotiate the details of each agency's participation in the housing demonstration. In December 2001, UI prepared a draft *Memorandum of Understanding* (MoU) for the Housing Demonstration Program between USAID/Croatia and MPWRC. The Mission finalized negotiations on the MoU with MPWRC in March 2002.

NHS Project Preparation

From January through April 2002, UI and the Mission finalized the project design for the New Housing Solutions (NHS) program and UI undertook surveys and analyses for the potential DCA program. In April 2002, Mercy Corps submitted a Technical Proposal for the NHS implementation and DCA preparation to USAID/Croatia. USAID approved the proposal, which revised UI's SoW to:

- Proceed with implementation of the NHS program;
- Finalize the DCA project design and provide technical assistance to the Mission in submitting an application to USAID/Washington; and
- Provide technical assistance to the GoC and private sector banks on financing of the Government's war-related housing programs.

The NHS program began in May 2002. UI issued an RFP for the reconstruction technical advisor/NHS reconstruction general contractor and, after reviewing the proposals, selected Arbeiter-Samariter-Bund (ASB). International Catholic Migration Commission (ICMC), through an expansion of its ECRA sub-grant, was selected to identify and provide support to NHS beneficiaries in the reconstruction and relocation components.

The DCA program application process to USAID/Washington was supported by UI preparing the *Economic Viability Analysis* and *Financial Viability Analysis*, which were included in the Mission's application for a \$35 million DCA guarantee facility.

NEW HOUSING SOLUTIONS PROGRAM (NHS)

Component One: Owner-Controlled Reconstruction of 100 Category IV-VI Houses (Severely Damaged Houses): Demonstration of the Applicability of Beneficiary Vouchers

Objective—To reconstruct 100 severely damaged homes (Category IV-VI) in Gvozd, Okucani, and Vojnic (and, later, Kistanje) with the active involvement of their owners. Owners' involvement ranged from input into reconstruction designs to performing some of the work themselves to participating in construction progress inspections and signing-off on final acceptance of reconstruction works.

Reconstruction program background—The USAID Mission wanted to undertake housing reconstruction for Serb households and to balance the NHS, which was initially directed mostly to relocation of Croat temporary occupants. The Mission had interpreted the Dayton Accords as proscribing direct USAID involvement in housing reconstruction. However, it was further interpreted that funding vouchers for Serb homeowners to undertake reconstruction work themselves, rather than USAID directly funding contractors to perform reconstruction, was an acceptable procedure. USAID's Regional Legal Advisor advised the Mission they could undertake these housing reconstruction activities. UI subsequently designed the housing reconstruction component as a beneficiary voucher program.



Implementing partners—Through its sub-grant from Mercy Corps, UI was responsible for the overall implementation of this reconstruction program. ICMC was assigned responsibility for identifying and enrolling participating beneficiaries for the NHS and providing assistance to eligible beneficiaries, e.g., by working with the County Offices of the MPWRC to complete the reconstruction decision process. ASB, the construction general contractor and technical advisor, provided construction management, supervised all construction activities, and provided technical assistance to beneficiaries doing self-help reconstruction. Konto-L, an independent Croatian accounting firm, reviewed the accuracy of invoices and payments.

Eligibility—A total of 100 houses from the three (eventually, four) target municipalities were reconstructed (note that two of these were reconstructed by Norwegian People's Aid; see below for details). Households who had applied for and received positive decisions with respect to eligibility for reconstruction assistance from the GoC in the target municipalities were potentially eligible. Households who had applied but not yet received positive decisions at the inception of the program were considered if ICMC determined that it was possible to assist them to complete the process quickly (within a three-month period). Households had to commit to being actively involved in the reconstruction in order to be eligible.

The program also had eligibility requirements with respect to the location of the homes to be reconstructed: homes had to be located in viable communities (i.e., not isolated homesteads) and could not be in mined areas.

Beneficiary Identification—The identification of beneficiaries was much more difficult than anticipated. To identify 100 eligible beneficiaries the program had to process 449 households. This was due to a number of factors, including:

- Many potential beneficiaries were still living in Bosnia-Herzegovina (BiH) and Serbia and were therefore difficult to locate.

A number of potential beneficiaries living outside the demonstration municipalities were contacted. However, they would not commit to returning to the municipality for permanent residence and, thus, were not eligible to participate in the NHS. There were several reasons for not committing to return, such as insufficient employment opportunities in the demonstration municipalities (those employed in BiH or Serbia were unwilling to return to these economically depressed communities) and established community/family ties (e.g., elderly owners did not want to leave their children) to where they had resided since the war. ICMC reported that 8 percent of those who were interviewed and otherwise eligible stated that they were unwilling to return, however, it was the belief of ICMC project staff that many more were unwilling to return based on resistance to completing needed documentation, etc.

This, in turn, affected the program's ability to attract working-age returnees as intended. Despite efforts to include younger families, most of the returning households in the program were composed of elderly members (almost 82 percent of the NHS beneficiaries had a head of household age 55 or older).



- Many homes were located in isolated municipalities that were considered not viable for return, were not serviced for utilities and/or had not been demined (15 percent of those eligible for the program were rejected because their houses were in a mined area).
- 44 percent of potential beneficiary households who had applied for Government reconstruction were not able to obtain a positive decision within the required three-month time period. Eligibility was difficult to prove for many families who could not produce necessary documentation. Records were not immediately available.
- Other donor-funded housing programs had already selected the clearly eligible households in the three initial demonstration municipalities.

In November 2002, the southern municipality of Kistanje, which had not previously hosted much GoC or donor reconstruction activity, was added to the target communities in order to expand the pool of eligible beneficiaries. Due to the factors listed above, identification of 100 beneficiaries by ICMC was completed on February 24, 2003, several months beyond the original target date.

Beneficiary Obligations—Beneficiaries signed Reconstruction Agreements with UI in which they committed to:

- Being actively involved in the reconstruction;
- Giving up any other claim on the Government of Croatia for reconstruction assistance once the completed housing unit was handed over to the beneficiary; i.e., after the reconstruction has been inspected and approved by UI and the MPWRC Engineer and formally accepted by the beneficiary following his/her final walk-through inspection;
- Moving into the reconstructed home within the guidelines set by the MPWRC under its reconstruction program, which included committing to reside in the reconstructed home for a minimum period of 10 years.

Reconstruction Design—MPWRC-appointed engineers completed reconstruction designs for each housing unit in accordance with GoC standards. These designs were used as the basis to tender the reconstruction work. The design process was coordinated and supervised by the Construction Management Advisor, ASB, and UI's Construction Supervisor. Beneficiaries were able to review the reconstruction designs and suggest modest changes that were within overall GoC guidelines, but better suited their individual needs.

Reconstruction Voucher Value—The Voucher value was established by public tender. ASB held tenders for qualified construction companies to bid for reconstructing beneficiaries' houses. The price set by the lowest qualified bidder was the Voucher value regardless of whether or not the household elected to do self-help.

Allocation of Voucher Value—With assistance from ASB, beneficiary households were then given the opportunity to decide how to apply the Voucher value to reconstruct their homes: (1) to have UI hire the general contractor to do all of the work or (2) to perform some work themselves. Any savings generated by the beneficiary choosing self-help could be used to purchase higher quality



materials/additional labor or could be received by the beneficiary as reimbursement for completed self-help activities.

Construction—ASB assisted the beneficiary household deciding if it was interested in self-help given the skills of household members, the specific tasks required to reconstruct the home, and the allocation of Voucher value. If the beneficiary chose to do some self-help work, ASB provided technical assistance and supervision. ASB monitored all work (both self-help and contractor) and ensured that the MPWRC-appointed engineer inspected the work at the appropriate times. The UI field supervisor provided further inspections and signed off on satisfactorily completed work.

Payment—All contractors were paid directly by UI, within 30 days, after the expected work or specified percent of work had been completed, inspected, and approved by ASB, the UI field supervisor and the beneficiary. Beneficiaries were reimbursed for self-help activities after the expected work or percent of work had been completed, inspected, and approved by ASB and the UI field supervisor. All invoices and payment requests were reviewed by Konto-L for completeness and compliance with program procedures before UI authorized payment.

Final Inspections—Final inspections, and acceptance of the work completed, were performed by the beneficiaries, ASB, the UI field supervisor and the MPWRC-appointed engineer.

Results

Self-Help—14 percent, or 14 households, chose to do part of the work—substantially fewer than originally anticipated. In part this result was due to the fact that, on average, beneficiaries were older than the ideal target groups for the program and found the physical requirements of self-help challenging: 82 percent of the NHS beneficiaries were over the age of 55, with 54 percent of the total beneficiaries over the age of 65.

Beneficiaries were allowed to undertake any work that did not require a professional, legally certified tradesperson. Most of those choosing self-help did basic manual labor (e.g., clearing the site for construction); a few took on tasks that required more skill (e.g., interior finishing work). The 14 beneficiaries who did choose the self-help option usually put the savings into improving the quality of the reconstruction.

Beneficiary Change Requests—Beneficiaries were given the opportunity to request changes to the reconstruction designs. Some changes were made during the initial beneficiary reviews of the designs and some were negotiated ad hoc in the field. The changes ranged from minor modifications such as relocating a door or window, which the contractor performed at no cost, to more substantial changes such as increasing the height of the house, a major change that the owners negotiated with the contractor.

Change Orders—The program encountered a limited number of instances where additional work was needed that a prudent contractor could not have anticipated either because the condition was not visible before construction uncovered the problem. Consequently, in a small number of instances, change orders were permitted and the contract price increased accordingly.



Water/Sewerage Service—The NHS program, following USAID’s requirements, had committed to assuring that there would be no adverse environmental impacts resulting from the reconstruction. USAID had reviewed the NHS program prior to implementation and determined that it would have no significant environmental impact.

UI had also committed to complying with all Croatian environmental regulations. Croatian regulations require water/sewerage service be installed for all reconstructed units; under the GoC reconstruction program this required installation is the responsibility of beneficiaries. In part in order to ensure the demonstration aspect of the NHS program, the decision was made initially to have beneficiaries be responsible for water/sewage hookups under NHS. However, in the summer of 2003, it was determined by ASB and UI that a number of beneficiaries would not be able to complete the necessary water and sewerage services on their own by the time the NHS program completed the house reconstruction, e.g., because they were elderly and could not undertake the work themselves and/or could not afford to pay for the work. Complicating matters was the fact that ASB had included water/sewerage services in their reconstruction program for the European Union in the same municipalities and beneficiaries had come to expect NHS to complete the same level of work. These factors led UI and USAID to agree to complete water/sewerage services for all NHS reconstructed houses. Due to budget problems, resulting from adverse foreign exchange conditions, USAID agreed to have the CIRP program (a companion program under the same USAID Strategic Objective as ECRA) complete the sewerage component and UI would undertake water connections. All 98 NHS units had water connections and sewerage disposal systems reconstructed or installed as a result of these actions.

Completion of NHS Reconstruction—By the end of November 2003, 98 houses in Okucani, Gvozd, Vojnic, and Kistanje had been completed under NHS. Again, due to adverse foreign exchange conditions (discussed in more detail, below), it became advisable to find another solution for reconstructing two of the homes in order to remain within budget and meet NHS commitments to all 100 selected beneficiaries. Two houses slated for NHS reconstruction in Kistanje were accepted by Norwegian People’s Aid, which agreed to complete their reconstruction. In February 2004, the Norwegian People’s Aid completed reconstruction of these two remaining homes.

Foreign Exchange Rate—A significant problem adversely affecting the reconstruction program was the unforeseen devaluation of the US Dollar (USD) against the Croatian Kuna (HRK). As a result of the declining value of the USD, the cost of building a house increased more than 30 percent over the period during which reconstruction work was procured and completed. The average cost per house in August 2003 was \$22,437; at the exchange rate existing at the beginning of the program, it would have been \$18,000. As noted above, to address this problem, the program was able to enlist the assistance of Norwegian People’s Aid to assume responsibility for reconstruction of two houses. Furthermore, in consultation with USAID, UI reallocated funds that had been originally budgeted for the new construction of 20 houses under the relocation/repossession program, to meet increased reconstruction costs due to USD devaluation. This 20 unit new construction component had been viewed as optional from the outset. In this manner, UI was able to maintain the NHS commitment to reconstruct all 100 houses as specified in the Memorandum of Understanding executed between USAID and MPWRC.



Assessment of Results under the Housing Reconstruction Component

ASB conducted a survey of NHS reconstruction beneficiaries and UI conducted a companion survey of GoC reconstruction beneficiaries to compare satisfaction levels. ASB, ICMC, and UI all contributed observations about the demonstration.

Survey of NHS Beneficiaries

ASB utilized its own staff to conduct a survey of 39 reconstruction beneficiaries. The full survey results are appended to this report as Annex 3.

Highlights of the NHS beneficiary survey results include the following:

- There was modest to high interest by beneficiaries in self-help, depending on the municipality (in Okucani the average rating on importance of self-help was 2, in Gvozd the average rating was 3, in Vojnic the average rating was 4 and in Kistanje the average rating was 3 on a scale of 1 to 5, with 5 being the highest level of interest in self-help);
- The main interest of beneficiaries was to have their houses reconstructed regardless of the level of personal involvement (in Okucani the average rating was 5, in Gvozd 5, in Vojnic 5 and in Kistanje 5 on a scale of 1 to 5, with 5 being the highest indication of beneficiary main interest was to have houses reconstructed, regardless of personal involvement);
- There was interest by beneficiaries in receiving additional financing to complete additional work not covered under reconstruction (in Okucani the average rating was 5, in Gvozd 3; in Vojnic 1 and in Kistanje 3 on a scale of 1 to 5, with 5 being the highest level of interest in receiving additional financing);
- There was a high degree of satisfaction with the technical support received from NHS and ASB staff (in Okucani the average rating was 5, in Gvozd 5, in Vojnic 5 and in Kistanje 5 on a scale of 1 to 5, with 5 being the highest satisfaction level);
- There was a high degree of satisfaction with the crafts- and tradespersons used to complete the reconstruction (in Okucani the average rating was 5, in Gvozd 5, in Vojnic 5 and in Kistanje 3 on a scale of 1 to 5, with 5 being the highest satisfaction level with crafts and tradesmen);
- There was a high degree of satisfaction with the timeliness and quality of the reconstruction (average 4.64 on a scale of 1 to 5, with 5 being the highest level of satisfaction);
- There were mixed perceptions as to the difference between the NHS and GoC reconstruction programs, with most respondents uncertain about the differences between the two programs (in Okucani the average rating was 4, in Gvozd 3, in Vojnic 3 and in Kistanje 2 on a scale of 1 to 5, with 5 being the highest perception that the NHS and GoC reconstruction programs were the same);



- 80 percent of NHS beneficiaries waited 5 years or less between applying for reconstruction and the start of reconstruction, with 46 percent waiting between 4 and 5 years;
- There were somewhat contradictory results on factors affecting refugee returns. There was a high correlation between living conditions in the municipality and refugee willingness to return (average ratings of 3.15 to 4.09 on a scale of 1 to 5, with 5 being the highest positive response), e.g., access to utilities (except sewer system quality, which received a low priority, 1.92 average rating) and community services and proximity of neighbors. Surprisingly, there was only moderate correlation between repopulation and willingness to return (2.92 on a scale of 1 to 5, with 5 being the highest correlation to return considerations) and additional infrastructure improvements (2.72 on a scale of 1 to 5, with 5 being of the highest importance for return);
- 82 percent of NHS beneficiaries were 55 or older.

Survey of Government Housing Reconstruction Beneficiaries

UI surveyed 43 GoC reconstruction beneficiaries in the four demonstration municipalities and neighboring municipalities.⁵ Neighboring municipalities had to be incorporated because few GoC reconstruction beneficiaries could be located in the demonstration municipalities alone.

The full survey results are appended to this report as Annex 4.

Highlights of the GoC reconstruction beneficiary survey included:

- Surveyors used a list of addresses of GoC-reconstructed houses provided by MPWRC. However, many of the houses were unoccupied and the surveyors concluded that many GoC reconstruction beneficiaries did not reoccupy their homes after reconstruction was completed.
- Results of the GoC reconstruction beneficiary survey include the following highlights:
 - GoC beneficiaries were satisfied with the pace and progress of the reconstruction (rating of 4.17 on a scale of 1 to 5, with 5 being the highest satisfaction rating);
 - GoC beneficiaries would recommend the GoC program to other potential Returnees (4.50 on a scale of 1 to 5, with 5 being the highest level of concurrence);
 - GoC beneficiaries would have wanted more personal inputs into the reconstruction process (3.28 on a scale of 1 to 5, with 5 being the highest level of concurrence);

⁵ Results from UI's survey of 43 households whose homes had been reconstructed by the GoC's program in or near the ECRA demonstration sites. UI tried to locate 100 GoC beneficiaries, but a large number of reconstructed houses turned out to be empty. Given UI and ICMC experience in the ECRA communities, we expect that this is due to the poor economic condition of the region; however, it may be that the survey is biased towards those with a higher satisfaction with the reconstruction (i.e., that those with a lower satisfaction level left).



- GoC beneficiaries were satisfied with access to Government officials during the reconstruction process (3.63 on a scale of 1 to 5, with 5 being the highest level of concurrence);
- Most GoC beneficiaries found out about the reconstruction program from friends and relatives or municipal offices (32 responses). Other sources included: County official (6 responses); NGO (6 responses) and media (4 responses);
- A total of 71.5 percent of GoC beneficiaries were 55 or older;
- Time between initial application and start of reconstruction was an average of 4.29 years;
- GoC beneficiaries believed that electricity and water quality were important, but not road quality, sewer system quality or education quality;
- GoC beneficiaries believed that proximity of neighbors was important (3.96 on a scale of 1 to 5, with 5 placing the highest importance on neighbors).

Analysis of NHS and GoC reconstruction beneficiary survey results

The main finding was that there is very little difference between the satisfaction levels with the reconstruction, demographics and community services requirements between NHS and GoC reconstruction beneficiaries. NHS beneficiaries expressed a slightly higher satisfaction level on reconstruction quality and process, but the difference was not statistically significant. Thus, the GoC program appears to operate satisfactorily for most beneficiaries. There appears little benefit in turning the entire reconstruction process into self-help through the issuance of vouchers (and may be counterproductive given the lack of interest in self-help by beneficiaries)—especially if the relatively elderly age of the NHS beneficiaries is representative of the remaining eligible households likely to pursue reconstruction decisions and return to reoccupy their original homes.

Cost Comparison with Government Reconstruction Program

Construction cost comparison:

MPWRC	UI				
Average Cost*	Average Cost**	<i>Okucani</i>	<i>Gvozd</i>	<i>Vojnic</i>	<i>Kistanje</i>
HRK 215,703	HRK 149,175	HRK 152,090	HRK 152,588	HRK 156,508	HRK 134,473
55 m ²	53 m ²	51 m ²	50 m ²	51 m ²	58 m ²

*Average per unit cost estimate for a 55m² house reconstruction (i.e., for a three-member household) in 2001

**Average per unit actual reconstruction costs for beneficiary households for NHS (2003-2004)

As evident from the table above, MPWRC construction costs are higher than NHS construction costs for several reasons, some of which complicate any meaningful *apples to apples* comparisons:

- MPWRC pays VAT, which adds 22 percent to costs (International Community implementing agencies do not pay VAT).



- MPWRC cost estimates are considerably higher than NHS actual tender prices.
- MPWRC pays 20 percent of the reconstruction contracts in Privatization Fund shares (which cannot easily be converted to the same cash value as the shares and is estimated to be valued at 10 percent to 12 percent of the share value when sold ⁶).
- A history of MPWRC postponing payments to contractors has resulted in higher bids from contractors in order to carry the costs until paid. (It has been reported that MPWRC payments were sometimes delayed up to two years.)

In interpreting the data in the table, also note that cost data for MPWRC dates from 2001 (as obtained for the initial UI assessment report) and the data for UI assisted reconstruction are for 2002 and 2003. Thus adjusting the MPWRC for inflation would further enlarge the cost-differential.

However, actual construction costs are only part of the total cost of the GoC and NHS reconstruction programs. Other important costs are associated with:

- Identification of beneficiaries
- Design of reconstructed housing
- Construction management/contract administration (procurement, supervision, etc.)

Since the GoC's costs for these activities are not known, they cannot be directly compared. However, it is reasonable to assume that NHS costs for beneficiary identification and construction management were higher (NHS used GoC reconstruction designs) than the corresponding GoC costs. In part, this is due to project design constraints on NHS that would not affect the GoC; for example, NHS provided assistance in negotiating the government reconstruction decision process in order to ensure that 100 houses could be completed within the program period. And UI and ASB had to ensure compliance with USAID contracting procedures.

The GoC directly manages construction; that is, it is responsible for procurement of the construction and design companies. NHS hired a construction manager, ASB, for this work, at a cost of \$249,045. In addition to tasks comparable to those the GoC undertakes, ASB was also responsible for working with beneficiaries to facilitate their involvement in the reconstruction process through: (1) self-help activities; (2) design changes; and (3) inspection of the work. In addition, UI retained its own construction expert and an accounting firm, Konto-L, to ensure proper and accountable use of USAID funds.

As discussed below, UI does not recommend incorporating the self-help component of the NHS program into any future activities, primarily because of the demographic composition of the beneficiary pool. For this reason (as well as the infrasonic difficulty of doing so in a meaningful way), we have not tried to disaggregate UI and ASB costs (direct and indirect) that might approximate the marginal cost for having provided beneficiaries with the self-help option. The incremental cost to the government for allowing some beneficiary input into design and inspections of work progress might prove relatively nominal—primarily some training and orientation of existing MPWRC construction management and beneficiary screening

⁶ Interview with Silvana Bozic, Member of the Management Board, CA IB Invest.



personnel. However, one would have to study internal MPWRC staffing and procedures to confirm that no additional staffing would be required to incorporate the forms of beneficiary participation in design and quality control recommended here. We would encourage MPWRC to examine the cost-benefit implications of adopting these more participatory procedures:

Observation 1—All of the 100 targeted houses were fully reconstructed at a high standard. As a result, in the five months since completion of the last NHS reconstructed homes, there have been no requests by beneficiaries to exercise construction warranties against contractors. Based on the ASB sample survey of reconstruction beneficiaries, there was a high degree of satisfaction with the NHS program and the quality and timing of reconstruction.

Observation 2—So many of the reconstruction beneficiaries were elderly that there was a low level of demand for beneficiaries to undertake reconstruction by themselves, even if it meant more control over the process and likely cost savings that could have been allocated to additional work beyond the reconstruction design. This indicates that current process of organized reconstruction (where the GoC contracts out the reconstruction work) is the best alternative for completion of housing reconstruction, given the population to be served.

Observation 3—While we cannot say definitively why GoC costs are higher, much of the difference is likely explained by the GoC's practice of a) having contractors assessed VAT, b) making partial payments with shares from companies in the Privatization Fund, and c) making significantly late payments to contractors. However, some may also be due to ASB's efficiency in procurement.

- Croatia follows European practice in having the GoC require payment of VAT on reconstruction contracts. Requiring VAT payments also probably prevents some fraud from contractors in the purchase of materials under reconstruction for other non-GoC projects. However, it is only an accounting procedure to charge VAT to contractors and recover it through tax payments made by vendors and contractors back to the GoC. While the GoC will most likely not change this VAT requirement, it should, perhaps, recognize that VAT is a recoverable cost in analyses of actual housing reconstruction costs.
- Partial payment of contractors with shares in Privatization Fund companies only serves to increase construction cost bids, as contractors do not view the shares as having much, if any, value. Partial payments and late payments by the GoC also reduce the interest of the most qualified contractors in bidding on housing reconstruction; this results in smaller, less qualified firms undertaking much of the reconstruction works. Late payments by the GoC have reportedly put a number of small contractors out of business because they could not finance operations and payments to third party vendors with the delay in receiving payment.

Observation 4—The beneficiaries appreciated the ability to influence the construction. Their input into the construction design was encouraged, but was not required. Changes were negotiated during the design stage and ad hoc in the field, a process that was facilitated by the requirement that the contractor and ASB supervising engineer meet with the beneficiaries to regularly inspect progress. As noted above, beneficiary requested changes ranged from minor modifications to significant alterations requiring

additional payment from the beneficiary. Furthermore, in the GoC reconstruction beneficiary survey, beneficiaries indicated a significant desire to have more personal inputs into the reconstruction process.

Recommendations

The GoC could benefit from contracting out the entire construction management process of housing reconstruction to a qualified firm, such as ASB. ASB demonstrated that it could complete reconstruction on a more cost effective basis than the GoC and complete the process expeditiously and to the high satisfaction of beneficiaries. ASB proved to be a most efficient and effective construction manager.

Given its substantial budget deficits, the GoC would be well served to change its construction payment procedures and establish the true costs of housing reconstruction; this would enable the GoC to reduce the projected borrowing and budget allocations for this program. While the GoC financing procedures described above may have some minor benefits for current revenues, they increase costs over what the International Community has demonstrated can be obtained (International Community reconstruction programs are exempt from VAT, pay contractors in a timely manner, and do not use shares in companies for payments). These procedures further inflate costs because contractors base overhead charges and fees on top of the total construction costs, which includes VAT and higher charges to account for the Privatization Fund shares proportion of payments.

The International Community or the GoC may want to conduct more extensive surveys of potential reconstruction beneficiaries to determine if there really is significant demand for return. This recommendation is based on the observations of both ICMC (with respect to identifying potential beneficiaries for the NHS program) and the surveyors (with respect to locating GoC reconstruction beneficiaries).

Component Two—Self-Selected, Permanent Accommodations for 100 Beneficiaries:

— Demonstration of an Approach Promoting Voluntary Relocation of Temporary Occupants

Objective—The Repossession/Relocation Program was designed to work with 100 temporary occupants to gain their voluntary relocation from homes owned by households who fled during the war (Croat refugees from BiH and Serbia, called settlers, and internally-displaced households, who occupy homes owned by other refugees, are collectively referred to as temporary occupants). The Government has encountered resistance on the part of temporary occupants to relocate, as they are required to do under Croatian law, and finds itself politically constrained in coercing compliance. This component of the NHS had, as its hypothesis, that offering the temporary occupants choice in the selection of Alternative Accommodations would result in much greater voluntary relocation. The program was intended to enable ethnic Serb refugee homeowners (returnees) to repossess their homes from the current temporary occupants, who had been settled in these homes by the GoC during the war.

Process of Relocation under NHS—In the NHS program, eligible temporary occupant households selected houses, subject to GoC space and sale price guidelines, which the GoC had committed to buy and rent to the households. The NHS program worked with ODPR to help the family with



the process of relocation. Once a house had been vacated by a temporary occupant, the owner could repossess it.

Relocation Program Background—As noted above, at the time the NHS program was designed, there was substantial resistance to relocation amongst temporary occupants living in homes owned by Serb refugees (who had abandoned their homes during the war and now sought to repossess them). To some extent this resistance had arisen from the policies of a previous GoC governing administration coalition that had given temporary occupants certain rights to occupy Serb refugee-owned houses. Repossession was progressing very slowly. The International Community placed strong emphasis on the GoC expeditiously proceeding with the relocation program and restoration of property rights to the ethnic Serb refugee owners. The International Community has considerable influence because of Croatia's desire for accession into the European Union. The slow process of relocating settlers and displaced persons and the continued pressures applied by the International Community were creating significant tensions.

Administration of relocation programs were the responsibility of local Housing Commissions, which, in many municipalities were sympathetic toward temporary occupants and unsympathetic toward Serb owner repossession requests. This resulted in little pressure on temporary occupants to relocate and most did not, even after receiving notice to relocate. Many temporary occupants simply refused the Alternative Accommodations offered by the GoC. The procedure to evict a temporary occupant from an occupied house was a complex and problematic one: the court procedure could take years and the courts were loathe to displace a family without suitable Alternative Accommodations being provided.

New approaches needed to be considered to expedite, and improve the quality of, the GoC's relocation program. The housing voucher concept seemed to provide an avenue for an effective USAID assistance program to demonstrate to the GoC that, by involving the temporary occupants in the relocation process, the GoC could increase voluntary compliance.

UI prepared numerous memoranda on project design issues for USAID consideration. Under USAID auspices, UI also made presentations on the housing voucher concept to the USAID Mission, State Department, MPWRC, and the International Community. UI also met with major NGOs representing Serb refugees and Croat settlers to discuss the NHS and they expressed considerable support for the NHS initiatives.

Implementing Partners—Through its sub-grant from Mercy Corps, UI assumed responsibility for the overall implementation of this repossession/relocation program. ICMC, under subgrant from Mercy Corps, was the implementing partner with responsibility for identifying and providing assistance to eligible temporary occupant beneficiaries to participate in the relocation process. MPWRC's Office of Displaced Persons and Refugees (ODPR), which established the policies for the relocation process and final allocation of Alternative Accommodations to temporary occupants, and APN, the GoC's real estate arm, which acquired and managed the Alternative Accommodations for relocation housing, were also implementing partners and had a substantial role in the process. The MOU signed between the GoC and USAID specified that there would be a collaborative relationship between the NHS and the GoC implementing partners.



Beneficiary Identification—ODPR was expected to provide a list for the three target municipalities of paired, eligible households—that is returnee households with valid repossession claims and the corresponding temporary occupant households (i.e., those living in the returnees' homes) with valid claims to Alternative Accommodations. Under Croatian law, only “settlers who are not owners or co-owners of houses or apartments in the newly established states of the former Yugoslavia” are eligible for Alternative Accommodations. ODPR originally expected to have made this determination by the end of August 2002.

Enrollment—ICMC contacted the paired eligible households on the list supplied by ODPR to inform them about the project and elicit expressions of interest. For the temporary occupant households, in addition to explaining the overall program, ICMC focused on the size and physical condition requirements of the unit, the assistance available from ICMC, and the rights and obligations of temporary occupant households living in Alternative Accommodations. For returnee households, ICMC explained the program and emphasized that the household had to commit to returning to the home.

Housing Search—Once both the temporary occupant household and the corresponding returnee household had committed to the program, the temporary occupant households were given a time-limited voucher entitling them to assistance in locating an appropriate unit. ICMC staff themselves conducted a search for appropriate units in the target municipalities and then recommended units that met each household's requirements. Initially, the program anticipated that it would also be possible to provide lists of houses already purchased or under consideration by APN; however, these lists were not forthcoming from APN.

Purchasing Housing—Once a house was identified, ICMC helped the seller complete the application to APN and forwarded it to ODPR for consideration. ODPR and APN were then expected to coordinate in determining if the unit met all the requirements and was available at a reasonable price and purchasing or rejecting the unit. ICMC regularly followed up with ODPR on this issue.

Results

Beneficiary Identification—It was not possible to identify and enroll 100 matched pairs of temporary occupants and returnees under the program. The major problem was that ODPR was not able to supply an accurate lists of matched pairs in a timely manner, in part due to significant changes in the way that GoC enforced eligibility rules. Only 24 matched pairs of households were eventually enrolled in the program. As of the end of August 2003, when the program closed, 14 of those families had received approval to move into their self-selected houses, purchased by APN. With respect to the remaining 10 households, APN was still negotiating to purchase six houses; negotiations failed to result in purchase for the other four houses. The four households for whom APN could not purchase homes are still eligible for the GoC Relocation Program and will be offered houses by the Government.

Self-Help—Households were eager to find their own houses and frequently found houses that APN did not realize were available. However, some beneficiaries found it difficult to locate a suitable house because they did not want to move to a different ethnic community or because they wanted to live in the center of town. In many areas the available centrally located houses were damaged or expensive.



Impediments Encountered in Implementation

GoC Data—Producing the lists of matched pairs proved much more time-consuming than ODPR anticipated. In particular, the new rigor with which the GoC applied the rule making households with homes outside Croatia ineligible for permanent Alternative Accommodations slowed the process down and, unexpectedly, resulted in the exclusion of the majority of settler households. In addition, beneficiary identification was complicated by the fact that the lists that ODPR eventually provided were incomplete and inaccurate. For example, addresses were incorrect, returnees had sold their homes, and some potential beneficiaries on the list had died.

Institutional Factors—During the course of implementing this component, there were several substantial institutional changes implemented by the GoC. Most significant for the demonstration project was the increased enforcement of eligibility rules for permanent Accommodations. To qualify for permanent housing rights in Croatia a family could not own a house elsewhere. Many families owned houses in BiH and at first were able to hide that ownership. As diplomatic relations between GoC and BiH improved, GoC cooperation with BiH improved and ODPR was able to learn about Bosnian property owned by the potential beneficiaries. Many were thus disqualified for the NHS program because they were only eligible for temporary housing in Croatia. Other institutional changes included the GoC's abolition of the local Housing Commissions and centralization of the relocation administration in ODPR, which then established field offices to administer the program. Many of the former staff for the Housing Commissions merely were transferred to ODPR field offices, so the attitudes did not markedly change toward making the process more efficient. Centralization of the relocation function did not make the process more efficient or more responsive to the relocation of temporary occupants or the needs of Serb homeowners.

ODPR was also resistant to greater involvement of beneficiaries. This resistance resulted in a lack of access to APN (which was responsible for the purchase of homes) by ICMC and UI and very slow verification of approval for relocation homes. We surmise that this resistance was a result of changing GoC policy toward settler relocation. In early 2003, this became evident when the GoC substantially changed its policy toward settlers and announced a rigorous enforcement of policies (particularly regarding homeownership in beneficiaries' countries of origin) that cast doubt on the eligibility of the majority of settlers for permanent relocation housing benefits. This greatly reduced the number of potential beneficiaries. Further, much tougher GoC policies for settlers not complying with GoC relocation directives made the original project objective of gaining voluntary compliance less applicable. Settlers who did not comply with GoC relocation directives were now to lose their benefits and so compliance was anticipated to be much greater than under previous GoC policies (when the project was designed), where beneficiaries had many options open to resist relocation.

The Intractability of the Bureaucracy—Households were eager to find their own houses and frequently found units that APN did not realize were available. However, neither the proactive settlers who found suitable houses within a few days nor UI/ICMC could get ODPR and APN to respond to their selection quickly due to a burdensome bureaucratic process.

Lack of Automation Led to Many Errors—ODPR receives conflicting data from the field (the beneficiary lists obtained by ICMC from ODPR had many errors.) This faulty data makes ODPR unduly

cautious. It is very apprehensive that it will settle a non-eligible family and then have to go through an arduous eviction process.

ODPR Headquarters/Field Offices Relations—The NHS program design required a close working relationship with ODPR to resettle the temporary occupants. In practice, ODPR tightly controlled the actions of field offices and field offices were not authorized to give information and cooperate with ICMC unless expressly notified by the central office on a case-by-case basis. This oversight is to retain control and limit errors, but it is also a check on corruption. The local Housing Commissions, which had previously been responsible for allocating housing to temporary occupants, were abolished in favor of ODPR because they were not implementing GoC's program expeditiously and transparently.

Locating Available Housing—APN did not provide data on its available houses. NHS expected to review the APN inventory, but that was never permitted by ODPR. Instead, ICMC compiled a listing book to facilitate searches for homes and also did a market search of available houses, which revealed many additional houses that were available for purchase.

Political Issues—A variety of political issues also affected commitment to participation by various institutional stakeholders. For example, some mayors were concerned that allowing settlers to choose their own homes could affect the ethnic composition of their community; others were concerned about the effect on the social assistance roles. In addition, ODPR was under great pressure to assign houses to households on the basis of place on the list rather than as participants in the NHS program.

Termination of the Relocation Component

UI and USAID recognized that the institutional changes and the other substantial impediments to implementing the relocation component would not be resolved in any foreseeable future. ICMC staff indicated that it was unlikely to find 100 matched pairs of eligible beneficiaries in the three demonstration municipalities; the final list of eligible households in the three target communities was much smaller than expected. In March 2003, USAID requested that UI and ICMC halt further recruitment of beneficiaries and serve only the existing caseload.

Component 3: Development Credit Authority (DCA) Program: Home Purchase and Property Improvement Loans

Objectives—*Increase ASSC Residents Access to Private Bank Financing.* To help demonstrate the business potential for banks of expanded lending to borrowers in the war-damaged areas. In so doing, to lay the groundwork for expanded access of households in the war-damaged areas to credit for home purchases and property improvements. *Promotion of Economic Development in the ASSC Through Property improvement Loans.* Through improved credit access, to help demonstrate the potential for increasing the effective demand for homebuilding and property improvement services and residential building material in the war-damaged areas, and thereby to contribute to local economic development and job creation. Further, by encouraging banks to allow borrowers to use their homes and farms as collateral, expand loan opportunities for micro and SME business development and expansion.



Assist the GoC to Finance Relocation Housing—The Home Purchase component would enable temporary occupant tenants to purchase their homes from the GoC and then the GoC could use these recaptured funds to purchase additional relocation housing.

Background

The Housing Needs Assessment and concept paper for a proposed Housing Demonstration Program had recommended housing loan guarantees for housing improvement loans.

The USAID Mission Director was interested in sponsoring a DCA program in Croatia. The *Housing Needs Assessment* and a concept paper for a proposed Housing Demonstration Program had recommended financing strategies conducive to DCA guarantees. The Mission Director then asked UI to prepare a concept for a DCA. The subsequent *Financing Strategy* prepared by UI also detailed benefits to the GoC in selling State-owned relocation housing to relocation beneficiaries as a way for the Government to recoup a substantial portion of its investment in this housing. The recovered funds could then, in turn, be re-invested in additional relocation housing and significantly reduce the total amount of additional GoC funding required for relocating an estimated 7,000 beneficiaries. This strategy envisioned banks providing mortgages to beneficiaries based on a GoC discount for relocatees to purchase, rather than rent, GoC-provided accommodations. A DCA guarantee would further enhance bank mortgage lending to relocation beneficiaries; the combination of a GoC purchase discount and DCA guarantees would enable many relocation beneficiaries to purchase their relocation housing from the GoC.

A second component was added to the DCA to encourage property improvement loans in the ASSC. The USAID Mission and UI felt that there was substantial benefit to improving access to credit for property improvement loans with a DCA guarantee and demonstrating to the banking sector that the ASSC was a viable market for expanding lending. Property improvement loans would also generate economic development in the ASSC. With the GoC's reconstruction program lagging, many of the small contractors and tradespersons and suppliers in the ASSC were not obtaining new work or materials purchase orders. The DCA Property Improvement Loan component would generate new employment opportunities for small contractors and revive spending for materials with local retailers.

At the request of USAID/Croatia, UI prepared an initial concept paper for a DCA for submission to USAID/Washington. USAID/Washington accepted the concept for a Croatia DCA. After Mission review and interest expressed by the Minister of MPWRC in loan guarantees, UI was requested to prepare a project design for a DCA.

UI then prepared several extensive memoranda detailing how a DCA program should be structured. UI designed and supervised two surveys in 14 municipalities to test the feasibility of the proposed DCA. The surveys provided positive indications of both loan demand and substantial numbers of potentially qualified borrowers. After an extensive iterative process between UI and the Mission, a final project design was selected.

Under relatively short time constraints tied to the DCA approval calendar in Washington, UI prepared for the Mission two of the major portions of the application to USAID/Washington for the DCA. The *"Economic Viability Analysis"* and *"Financial Viability Analysis"* were well received by



USAID/Washington and the DCA proposal was accepted. In the process of preparing the *"Financial Viability Analysis,"* UI enlisted the voluntary support and participation of the Croatian Banking Association to conduct a UI-designed survey of the banking sector on housing loans. Because UI was able to gain the support of the Croatian Banking Association, there was an excellent response to the survey. Data from the survey and UI analysis were subsequently used by a consultant to the Mission, Paul Sacks, in his study, *"Prospects for a Secondary Market in Croatia"* and by UI in preparing case studies for a regional SEE/Balkan conference on secondary mortgage markets for USAID/Washington.

UI met with a number of Croatian banks to discuss their participation in the DCA. The Mission Director initiated discussions with PBZ's President and UI then followed up with PBZ staff. The DCA surveys became an important part of informing PBZ's decision to become the DCA participating bank. After PBZ opted to participate in the DCA, it wanted to do so on an exclusive basis; dialogue with other banks ceased at that point.

UI advised the Mission and Regional Legal Advisor in preparing the DCA Guarantee Agreement. UI also responded to questions from USAID/Washington.

On behalf of the Mission, UI also conducted negotiations with PBZ on the implementation of the DCA. It gained agreement with PBZ on providing more flexible loan origination criteria and loan terms than offered on their other conventional housing loans. UI also wrote a memorandum for PBZ on guidelines for preparation of the required PBZ Management Plan, a condition precedent for proceeding with the DCA.

The DCA Guarantee Agreement was signed by USAID and PBZ on September 26, 2002. Through the balance of its ECRA grant period, UI advised the Mission on DCA issues and worked on the implementation and monitoring of the DCA on behalf of USAID.

Implementation—USAID operates the DCA project with Privredna banka Zagreb (PBZ), the second largest bank in Croatia. The US Government guarantees 50 percent of the principal on each loan originated by PBZ under the project. The DCA, itself, is not a component program under ECRA. UI's role in the DCA has been that of advisor to USAID and PBZ on DCA policies and implementation and to conduct a limited monitoring of DCA progress on behalf of USAID until conclusion of the ECRA project; thereafter, USAID assumes responsibilities for policy formulation and monitoring. UI was also responsible for conducting a DCA Demonstration Marketing Program, focused on the ECRA communities.

The DCA program provides for a total of \$35 million in USAID loan guarantee authority. It originally included two components:

- Home Purchase Mortgages for qualified relocatees under the GoC's program of repossession of property rights—\$20 million in USAID guarantee authority. Purchase mortgages could be up to thirty years.
- Property Improvement Loans for residents of the Areas of Special State Concern (ASSC)—\$15 million in USAID guarantee authority. Property improvement loans could be for a maximum term of seven years.



The GoC was expected to issue a decree on the sale of State-owned property to allow eligible tenants to purchase their State-owned residences. This decree impacted a much larger population than just that potentially affected by the DCA program (including, for example, residents of State-owned apartments). Issuance of the decree was delayed in the political process of obtaining concurrence by the Sabor and other ministries. As a result of the delay, the Home Purchase Mortgage component was canceled by USAID in February 2003 and the Property Improvement Loan component of the DCA program was approved for implementation only in March 2003.

However, the analysis and preparation for the Home Purchase Mortgages component of DCA has been utilized by the GoC in preparing its own program as described in the decree, which the GoC adopted in March 2003.

DCA Terms

Only terms for the Property Improvement Loan component are described, below, as the Home Purchase component was cancelled.

- The Property Improvement Loan component is divided into two tranches of USAID loan guarantee authority; each tranche is \$7.5 million.
- Under the Guarantee Agreement, PBZ has five years from the date of the signing of the first amendment to the Agreement, December 5, 2002, to originate loans to absorb the first tranche.
- DCA Property Improvement Loans are limited to a maximum of the Kuna or Euro equivalent of \$10,000 and are restricted to residents of the ASSC. The loans have a term of up to seven years.

Supplemental Marketing of DCA

For the DCA loans, PBZ had planned to conduct the same kind of media-based marketing campaign used for all of its loan products. Surveys conducted by UI in the preparation of the DCA planning revealed that there was potentially substantial qualified borrower demand for DCA loans in the ASSC, but that the vast majority of residents in the ASSC had either never accessed bank credit or had not for many years.

The typical borrower in Croatia finds that applying for bank loans is generally a complex process. Thus, if these inexperienced prospective borrowers were to be successful in obtaining DCA loans, considerable assistance needed to be provided to prospective borrowers in navigating the loan application process.

PBZ had previously discounted the ASSC as a profitable market. The ASSC had been severely under-served by the banking sector since the war, resulting in a low level of loan activity, which, in turn, re-enforced the idea that the ASSC was an unattractive market for banking services. This neglect resulted in many ASSC municipalities only having one bank, or in some cases, no bank, in their communities. The

banking sector simply has not devoted the resources toward increasing consumer awareness in the ASSC about obtaining loans.

UI therefore proposed that community outreach could be instrumental in expanding borrower awareness about the desirability of DCA loans and facilitate the application process to increase the success rate in being approved for DCA loans. UI also expected that PBZ could learn from the community outreach approach, which was potentially applicable to all of its bank products.

UI drafted a DCA Marketing Plan, which was endorsed by USAID and was accepted by PBZ and approved by Mercy Corps on April 1, 2003. PBZ launched its DCA advertising campaign on May 15, 2003. At the same time, implementation of the UI marketing plan began, with three Information Officers and a Supervisor, jointly selected by PBZ and UI and employed by UI, promoting the program to community and business leaders and to potential borrowers in 14 municipalities, 10 ECRA Partner Municipalities and four additional municipalities jointly selected by UI and PBZ in Dalmatia.

UI Role in Monitoring DCA Loans

UI's role was to assist the Mission and PBZ with implementation of the DCA. USAID requested UI to obtain demographic data on borrowers and loan absorption information on a current basis. Using raw data from the PBZ reports, UI compiled data on loan originations and borrower demographics in monthly reports for USAID. In addition, the Information Officers fielded under the Marketing Plan were a substantial resource for identifying impediments to greater loan originations in the rural, economically disadvantaged municipalities covered by the Information Officers.

Results

Flexible Loan Criteria—One of DCA's initial objectives was to encourage PBZ to introduce more flexible loan origination criteria to the Croatian banking sector. More flexible loan criteria, however, was not a requirement under the USAID Guarantee Agreement as DCA is intended to provide loans under normal market conditions, which are to be determined by the participating bank, PBZ.

Introducing more flexible loan origination criteria has been achieved. UI initially proposed changes to the DCA loan origination criteria and most of these recommendations were adopted by PBZ. As a result, many of the terms PBZ initially specified for DCA were less restrictive than PBZ's regular lending terms, e.g.,

- PBZ provided a loan option that does not require guarantors, co-debtors or bank deposit. The property and creditworthiness of the borrower could serve as sufficient collateral.
- Unemployed homeowners, homeowners with periodic income (such as farmers) and homeowners with informal sector or pension income could secure a loan if they have a creditworthy co-debtor.
- Borrowers could be up to 70 years old at the end of the loan term.



- The interest rate was about 15 percent less than other similar loans.

Since the signing of the DCA Agreement, similar, less restrictive terms have been introduced for all PBZ loans. Even some of the terms that had been designated as special for the DCA program are now available in other loan products, e.g., option for loans without guarantors or co-debtors and 70-year-old borrowers. Other DCA loan terms remain more flexible and attractive than for conventional PBZ loans, such as qualifying borrowers with informal sector, periodic income or pensions (which is very important in the ASSC, where there are few formal sector jobs) and the reduced interest rate. Discussions are still underway on DCA loans being approved for either property improvements or micro/SME business.

UI DCA Information Officers observed that the major obstacles to loan origination were (a) the inability of borrowers to produce certified property title as proof of ownership due to out-of-date or missing land records, (b) the inability of borrowers to obtain qualified guarantors for loans, and (c) the requirement that salaried borrowers transfer their bank accounts to PBZ. In the 14 municipalities where UI conducted the marketing program, the problem of court certified title is especially evident. This problem confronts a substantial portion of potential borrowers in the ASSC in making loan applications to all banks. (See next Section and also RELATED POLICY RESEARCH AND ADVICE, below.)

UI made additional recommendations to PBZ to further liberalize their underwriting criteria and removing or reducing these and other impediments cited by potential borrowers to Information Officers. PBZ's Management Board approved these recommended changes in April 2004, which will improve access to DCA loans and may pave the way for PBZ to adopt these criteria for its regular home loan programs. Recently approved changes include:

- Removing the requirement of transferring bank account in which salary is received (by borrower or, if no borrower salary, but guarantor/co-debtor) to PBZ;
- Allowing home owners to be borrowers even if not creditworthy or do not fulfill age requirement if a qualified member of the household is a co-debtor;
- Removing clear title certificate requirement for loans up to 5,000 EUR and allowing borrowers to apply with submission of cadastral certificate or the Ministry Decision on Reconstruction and the statement of ownership;
- Making DCA loans available to State tenants with submission of the State document on permanent tenancy right;
- Expanding use of DCA loans for micro, SME and agricultural businesses;
- Extending loan term up to 10 years for loans over 5,000 EUR.

Field experience gained under the Marketing Plan also led to recommendations to USAID for clarifying, with PBZ, eligible loan uses for SME and agricultural business under DCA. Thus, UI has performed a monitoring role for USAID well beyond that incorporated in the original work plan.



Current Status of the DCA

Loan Origination Activity—As of March 15, 2004 (10 months into implementation), 361 loans had been approved, with a principal amount of \$2,202,400 (more than 29 percent of the first DCA tranche).

The distribution of DCA loan originations indicates that most loan activity is in Eastern Slovenia and larger municipalities and less activity occurred in the severely economically depressed small rural municipalities. This was expected and confirmed by the data provided by PBZ. Distribution of loan activity was (as of March 15, 2004):

PBZ Region	No. of Loans	\$ Originated
Karlovac	59 Loans	\$328,624
Sisak	49 Loans	\$275,241
Osijek	116 Loans	\$825,109
Slavonski Brod	6 Loans	\$ 38,814
Kutina	114 Loans	\$628,104
Valpovo	4 Loans	\$ 28,757
Gospic	6 Loans	\$ 32,505
Dubrovnik	2 Loans	\$ 11,591
Split	5 Loans	\$ 33,656

There were differing attitudes amongst PBZ retail offices toward the DCA. Where an office was totally within the ASSC, significant interest was experienced in originating DCA loans. Where offices served communities substantially outside the ASSC, considerably less interest in the DCA occurred. There were several reasons why more loan activity did not occur in the smaller municipalities, in particular, but also for the larger municipalities. Two major reasons restricting loan originations were:

- The lack of updated land registries, or missing land registries due to removal during the war by invading military, which prevented potential borrowers from obtaining certified ownership documents (a requirement to obtain a DCA loan), and
- The inability to secure qualified guarantors or co-debtors. (The issue of title problems is discussed in more detail in the sub-section, below, Resolving Problems with Property Title.) In several ECRA municipalities, such as Dvor, where land registries were removed during the war, no DCA loan activity could occur because owners could not obtain court certified title; in other ECRA municipalities and regions, such as Dalmatia, substantial portions of land records had not been kept up-to-date, again preventing owners from obtaining court certified title. The problem with obtaining guarantors and co-debtors is nationwide, but more pronounced in the economically depressed ASSC, where there are relatively few qualified individuals to serve as guarantors.



With Management Board approval in April 2004, the title requirement was removed for owners to provide court certified title on DCA loans under EUR 5,000; this change in underwriting requirements should open DCA loans to many additional potential borrowers.

Borrower Use of Loan Proceeds—PBZ conducted its own survey to ascertain whether or not borrowers were using DCA loan proceeds for the original purposes stated on their loan applications. PBZ reported that they found complete adherence by borrowers in use of DCA loans for the stated purposes. This finding was confirmed in the UI survey of borrowers.

UI Borrower Survey—UI conducted a survey of 163 DCA borrowers who had obtained loans through November 2003). The survey was completed on March 12, 2004. UI directly employed and supervised four interviewers who conducted the survey. The full survey results are appended to this report as Annex 5.

Highlights of DCA borrower survey results include (in some instances, we also provide data submitted by PBZ, which covers all borrowers, to elaborate on discussion):

Borrower Gender—40 percent were female borrowers; 60 percent male borrowers.

Average Loan Amount—The average loan amount was \$5,974 or less than EUR 5,000. One of the main reasons why most loans remained under EUR 5,000 was that these loans did not require a mortgage. Another major reason is that many households in the ASSC do not have sufficient incomes to support higher loan amounts, with 48 percent borrowers indicating that they would have wanted to borrow more money than they obtained under the DCA loan, 31 percent indicating that their incomes would not support a higher loan amount. The ability of households with modest incomes to obtain small property improvement loans is another indicator that the DCA is reaching the non-traditional borrower.

Banking Experience—34 percent are first-time borrowers or have not sought a bank loan for many years. In the data provided by PBZ on all borrowers, 41.6 percent were first time borrowers or had not sought a loan for many years. This is a significant achievement of the DCA and indicates success in meeting one of the program's objectives: bringing qualified borrowers into the banking system to obtain loans.

Employment

Survey Results	PBZ Data ⁷
43 percent	32 percent are employed by the GoC or other public institutions
15 percent	35 percent are employed by private business
8 percent	5 percent are self-employed (SME and crafts)

⁷ The PBZ data differs from the UI Survey Results primarily because it represents results from all borrowers through March 15, 2002, while UI surveyed 163 DCA borrowers who had obtained loans through November 2003. However, differences may also be due to the fact that the PBZ information was collected in written form during the loan application process, while the UI survey was done through face-to-face interviews (allowing for clarification) after the loans had been disbursed.

Survey Results	PBZ Data ⁷
4 percent	No data owners of SME or other private company
8 percent	2 percent are unemployed
20 percent	20 percent are pensioners or receive other Government benefits (this is another indicator that the DCA is reaching non-traditional borrowers)
1 percent	5 percent no information

Income (from PBZ data on all borrowers)

16 percent	- Income under 2,000 HRK/month
61.5 percent	- Income between 2,001- 5,000 HRK/month
15.5 percent	- Income over 5,001 HRK/month
7.2 percent	- No information

Although the DCA was not targeted to any specific income group, the data indicates that over 78 percent of borrowers were low income or moderate income.

Age (from PBZ data on all borrowers)

- 5.5 percent are younger than 30
- 18 percent are between 31 and 40
- 39.6 percent are between 41 and 50
- 31.8 percent are over 50
- 5 percent no information

Economic Development

- 94.1 percent of borrowers spent over 50 percent of loan proceeds on procuring building materials, equipment, etc. in their municipality;
- 71.3 percent of borrowers indicated that an additional amount of DCA loan proceeds were also paid for local tradespersons;
- 41 percent of borrowers indicated that they would not have undertaken the property improvements without the DCA loan;
- 52 percent of borrowers indicated that the property improvements funded by the DCA loan would have been on a smaller scale or over a longer period if they had not received the DCA loan.



These responses from borrowers indicate that the DCA achieved one of its objectives of promoting economic development in the ASSC. Without the DCA loans, many of the borrowers would not have undertaken all or some of the improvements and substantial purchases of supplies and the services of tradespersons would not have occurred in these economically disadvantaged municipalities. Where borrowers did not spend DCA loan proceeds in their local communities, many did purchase supplies or services from nearby localities, which are in, or border, the ASSC.

Through March of 2004, PBZ had not given complete and unambiguous instructions to its retail offices on using DCA loans for SME and agricultural purposes because there were several gray areas where DCA loans conflicted with PBZ consumer loans (which have a much higher interest rate) and other policies of the bank regarding SME loans. As a result, branch managers tended to restrict DCA loans to home improvements, narrowly defined. That said, there were exceptions. A small number of borrowers (9 percent) did use DCA loan proceeds for SME or agriculture business purposes, e.g., to open a store and purchase equipment, redesign part of the house for business purposes, stable renovation, outbuilding reconstruction or new construction (e.g., for poultry sheds) and to start a business. With the changes to loan origination criteria approved by the PBZ Management Board in April 2004, it is expected that the branch offices will receive clearer guidance and more encouragement to offer DCA loans for SME and agriculture business purposes. Thus, progress in advancing the economic development objective of the DCA should be even more evident over time.

Small loans predominate, with most loans being under EUR 5,000. The profile of DCA borrowers is a very positive indicator that the DCA has produced new borrowers in the ASSC.

Future Opportunities for DCA loans

In addition to identifying impediments to loan originations in ECRA municipalities, UI has identified where marketing targeted to specific categories of prospective borrowers might accelerate the rate of DCA loan origination. These target groups include a large number of refugees and homeowners with war-damaged homes.

State-Owned Housing Tenants—The DCA Guarantee Agreement states that the borrowers must be “individuals residing in Area of Special State Concern who request loans to repair or improve their homes and other real property on the same or contiguous plots for residence, business or agricultural purposes.” Thus, it requires that DCA borrowers be residents in the ASSC, but not necessarily homeowners. PBZ Management Board just approved, in April 2004, a proposed policy change that will enable tenants in State-owned housing to become eligible for DCA loans.

Tenants in State-owned housing with permanent rights are a strong potential market. The Information Officers reported that these tenants often have qualifying incomes and have inquired about loans. There are approximately 3,500 tenants that have been relocated to houses under the GoC's repossession of property rights program. Many of the relocation homes require improvements and many tenants want to improve these homes to make them more livable.



The GoC will be instituting a program to allow eligible tenants to purchase these homes with attractive terms (the Decree has been adopted, but has not yet been implemented). With this purchase incentive waiting in the wings, it is likely that many eligible tenants will want DCA loans in the future.

MPWRC has also indicated that the GoC has a program where eligible tenants can improve their State-owned accommodations and be allowed to deduct the cost from rent payments.

Land and Building Materials Beneficiaries—The DCA could be used to provide construction loans for beneficiaries of the GoC Land and Building Materials Program. Under this program, beneficiaries are assigned a plot of land and are given building materials to build their own houses. On completion of the house, the land ownership is transferred to the beneficiary.

One problem with the Land and Building Materials program is that beneficiaries are not provided with funds to pay for skilled labor to complete the work. The GoC gives the beneficiary a 15,000 HRK grant for labor only on approval of the completed house construction. PBZ might offer beneficiaries, on their entry to the Land and Building Materials Program, a DCA construction loan (perhaps up to the reimbursable amount of 15,000 HRK) for payments for skilled labor. After transfer of land ownership on completion of the houses, the beneficiaries might qualify for larger DCA loans for additional property improvements or for micro/SME purposes.

Previous Reconstruction Beneficiaries—UI obtained a list, with addresses, of over 60,000 previous reconstruction beneficiaries from MPWRC and provided the list to PBZ. Reconstruction beneficiaries represent a particularly promising market because the GoC program completes only minimum reconstruction, and significant reconstruction work remains that homeowners are likely to want to complete; e.g., in many instances, GoC only reconstructed the first floor of a two-story house and the top floor remained unusable; exterior walls are left without stucco.

Presentation on DCA Progress To PBZ

On March 25, 2004, UI made a formal presentation to PBZ senior staff on its observations regarding the DCA program. (See Annex 2.) The presentation covered topics such as:

- The significance of the loan origination distribution;
- Borrower survey results on a) PBZ advertising program, b) loan application process and c) the DCA loan product;
- UI observations about a) the DCA loan product, b) impediments to loan originations and c) approaches for improving lending in the ASSC;
- Community outreach marketing as a potential tool for PBZ to promote its products;
- Update on negotiations with Croatia osiguranje for offering property title insurance.

The presentation was well received by participants and seemingly well-appreciated.



RELATED POLICY RESEARCH AND ADVICE

UI has provided considerable technical assistance to MPWRC on issues related to the implementation of NHS and DCA. Much of the technical assistance has had a positive effect on MPWRC's housing policy for war-affected areas and for preparing for the DCA

This technical assistance took the form of discussion papers, memoranda and personal meetings with MPWRC officials. Topics addressed included:

- Reducing the current deep, untargeted rent subsidies provided to tenants in State-owned housing and instituting cost recovery as the basis for setting rents,
- Structuring purchase discounts for tenants in State-owned housing under the GoC Decree,
- Recommending replacement of the DCA Home Purchase Mortgage component, terminated by USAID, with a State Mortgage Guarantee pilot program for State-owned housing sales to tenants.

An excellent working relationship between the Ministry and UI evolved over time based on the Ministry's reception to the TA provided, and UI enjoyed favorable access to high-level decision-makers within the Ministry. A letter dated October 31, 2002, was sent from Assistant Minister Lovre Pejkoć to the USAID Mission Director indicating his appreciation for UI's technical assistance and that the assistance provided had been effective in assisting MPWRC in its policy formulation.

Financing Strategy Paper

As noted in the Housing Assessment, the lack of available financing for the GoC reconstruction and relocation programs was a major constraint inhibiting implementation. The GoC was confronted with a potential financing need over \$600 million dollars for these programs and, at the same time, continued to experience substantial State budget deficits and operated under an IMF agreement that limited State borrowing.

UI prepared a discussion paper, *"Government of Croatia Program for Repossession of Private Property Rights in War-Affected Areas – A Financing Strategy,"* which proposed some innovative ways the GoC could finance acquisition of relocation housing for settlers and internally displaced persons occupying refugee Serb-owned houses. One of the proposed strategies called for the GoC to provide financial incentives for relocatees and other State tenants to purchase the housing from the State; these recovered funds from sale of State-owned housing could then be re-invested to purchase additional housing. This strategy was essentially adopted by the GoC in a decree, providing substantial purchase discounts for tenants to acquire State-owned housing in the ASSC.

Determining Appropriate Purchase Discounts for the Government Decree

The GoC Decree establishing discounts for tenants in State-owned housing to purchase their residences was, in part, intended to support the DCA program. The draft Decree contained a discount formula that UI believed was inappropriately low and would not offer sufficient incentive for tenants to purchase and banks to make mortgages without substantial additional third-party guarantees or collateral.

UI discussed the GoC purchase discount proposals with PBZ in relation to the bank's lending policies. UI determined a purchase formula that would enable tenants to more readily purchase rented accommodations from the GoC. It would also eliminate much of the Croatian banks' underwriting criteria for third-party guarantees and collateral requirements that would be impediments to purchase.

UI prepared two extensive memoranda, dated October 19, 2002 and October 23, 2002, for the Ministry discussing the problems with MPWRC's proposed discount formula. These presented an alternative discount formula that would be more beneficial for both GoC and tenants. The GoC would sell the houses and substantially recoup its investment in purchasing new relocation housing and the tenants would be given a substantial financial incentive that would enable a sizable number to purchase their rented accommodations with bank mortgages.

The Decree was revised and contained, essentially, the UI recommendations and was adopted by Government in March 2003.

Rent Policy Technical Assistance

The Sabor passed legislation in August 2002 that required the GoC to determine market rents for excess square meters above the allowable square meters based on family size for State-owned housing in the ASSC.

The Ministry had little experience with market rents and requested UI assistance in devising a formula for establishing market rents. There were now to be two rents to be assessed:

- The original protected rent, which is the base rent paid by tenants for allowable square meters. This had been arbitrarily set a very low, highly subsidized rate of between 1.5 HRK to 2 HRK per square meter.
- New market rents for the excess square meters above the legally allowable limits based on family size. The new market rents would particularly affect settlers and displaced persons relocated to houses, which were considerably larger than most State-owned apartments. Most available houses in rural areas exceeded allowable square meters for eligible beneficiaries.

The protected rent had not been increased for years and was far below the State's costs for the housing stock and meeting recurrent expenses. However, the new rents could not be set too high or there would be political problems from tenant resistance.



UI prepared a concept paper, *"Establishing Market Rents for Areas of Special State Concern – Croatia,"* dated December 2002, to provide a framework for determining some compromise between true market rents and what was politically acceptable.

Normally, market rents would be based on comparables, i.e., rents existing in the private market; however, there is very little private rental stock in the ASSC and there was no available database to determine existing market rents. Thus, the concept paper proposed a formula for the GoC to establish market rents at cost recovery levels, which should be a reasonable, politically acceptable outcome.

This formula would move rents to levels that eliminated the current deep subsidies, yet not be so high as to create a situation where tenants could not afford the new rents. UI also proposed a rent subsidy formula targeted to only those households with financial need as a safety net for the low-income tenants in State-owned housing.

The GoC has not yet finally adopted a rent formula; however, the current Government proposal calls for establishing rents at cost recovery levels for maintenance. It appears that the GoC adapted the proposed formula in the UI concept paper and is moving more toward cost recovery in setting rents for State-owned housing.

State Mortgage Guarantee Pilot Program

The DCA contained a major program for US Government guarantees on purchase mortgages for relocatees to purchase their State-owned houses (Home Purchase component of the DCA). When the purchase mortgage component was deleted from the DCA program in February 2003, the GoC was left with a discount purchase program, but not the mechanism to enable the tenants to purchase houses with bank mortgages. The only other option left eligible tenants (other than cash purchase up-front) was for them to purchase homes under the GoC's installment sales program. However, this GoC mortgage program would require the GoC to recover its investment in these relocation houses over a 30-year period and would, thus, do little to recapture the Government's investment in Alternative Accommodations to provide sorely needed funds for purchase of additional relocation housing.

As part of its technical assistance to the GoC on addressing ASSC housing needs, UI proposed to MPWRC that it consider State Mortgage Guarantees to replace the U.S. Government guarantees deleted from the DCA program. UI has considerable experience with mortgage insurance programs (UI is currently involved in a long-term TA project to institute mortgage insurance in Kazakhstan). UI also discussed the concept of State Mortgage Guarantees with PBZ and Hypo Alpe-Adria-Bank and they were receptive to providing mortgages with partial State guarantees.

In April 2003, UI prepared background information and a presentation for the Assistant Ministers to make to the Minister on a potential pilot State Mortgage Guarantee program for tenant purchase of State-owned housing in the ASSC, which would include relocation housing. The GoC would provide partial, e.g., 50 percent, guarantees on mortgage loans given by banks to tenants (using the purchase discounts authorized by the GOC Decree) to acquire the Alternative Accommodations they presently occupy on a rental basis.



The Ministry formally requested UI assistance in August 2003 on the State Mortgage Guarantee option. UI had held discussions with officials at Hagen, the State pension fund supervisory agency, about the potential for pension fund purchase of mortgage-backed securities with State Mortgage Guarantees. Private pension funds are one of the major sources of purchasing investment products. In August 2003, regulations were amended by Hagen to permit pension funds to purchase securities guaranteed by the State or by the governments of other countries, such as the U.S. (allowing the proposed State guaranteed and DCA loans to become secondary mortgage instruments eligible for pension fund purchase). Secondary mortgage market instruments would also provide more flexibility for banks to allow them to sell mortgage portfolios as a security in Croatian capital markets to provide liquidity when needed; a stabilizing mechanism for the banking sector.

However, the national elections in November 2003 impeded presenting any new proposals for considering mortgage guarantees to the Minister and Sabor. The November elections resulted in the then current GoC administration being replaced with a new ruling coalition. The transition resulted in one key Assistant Minister for Policy, involved with consideration of mortgage guarantees, being replaced. The Assistant Minister for ODPR may be replaced and the current status of ODPR has not been resolved. MPWRC was abolished and responsibilities related to the NHS and DCA components were transferred to two new ministries. As the ECRA project is ending, it has not been possible to provide follow-up on this issue.

Resolving Problems with Property Title

UI identified the lack of clear title as a significant problem in the Housing Assessment. Prior to the formation of communist Yugoslavia, property records were reasonably well maintained by the State, which has responsibility for certifying ownership of property. During the almost forty years of Yugoslavia's existence, and after the independence of Croatia in 1992, property records were not well maintained and records of ownership are not clear for many properties in Croatia. In addition, during the war with Serbia, some municipalities had all their property records removed or destroyed. This has meant that many property owners throughout Croatia, and especially in the ASSC, find it very difficult to obtain court-certified ownership documents. Without being able to document ownership, many property owners cannot use their most valuable asset as collateral to obtain loans for property improvements or SME and agriculture development. This has obvious negative consequences for upgrading communities and promoting economic development in the ASSC.

After consultations with the USAID Mission Director, UI was encouraged to conduct a study on the potential applicability of private property title insurance in Croatia to resolve impediments in the land registration system. A specialist in title insurance was retained to conduct this study. Her June 2002 report concluded that private title insurance would probably not be feasible in Croatia.

Under the UI marketing component for the DCA, the full magnitude of the property title issue as a constraint on borrowing under the DCA (and in general) became evident when many potential borrowers in ECRA Partner Municipalities and other demonstration sites in Dalmatia could not submit a DCA loan application because of inadequate or missing land registries. UI then revisited the property title problem in light of the difficulties it caused with respect to DCA loans.



UI prepared a discussion paper, "Property Title Indemnification Agreement, A Concept for Resolving Property Title Where Land Records are Not Updated or Available," dated July 28, 2003. This proposed that municipalities enter into an indemnification agreement with banks to reimburse them for any losses related to successful court challenges to property title where the banks provided loans and the municipalities approved the borrower. UI realized in preparing the discussion paper that municipalities, particularly municipalities in the ASSC, are not in a financial position to indemnify banks, but wanted to suggest a concept so that donor agencies and the GoC or private insurance companies could consider the subject.

Results

Financing Strategy and Rent Policy—UI's early-on financing strategy recommendations resulted in the DCA Home Purchase component and the GoC adopting a Decree for providing purchase incentives for tenants in State-owned housing in the ASSC. UI assistance in rent policy formulation resulted in the GoC moving toward a policy of cost recovery in rents.

Title Insurance—UI collaborated with UNDP to initiate a demonstration project related to property title insurance. UI provided substantial background information and discussed a structure for a guarantee fund so that UNDP could proceed with preparation of a funding proposal for prospective European donors. With this proposal, UNDP obtained funding of 250,000 EUR from the Norwegian Government to finance a Property Title Insurance Guarantee Fund.

Once UNDP had obtained funding, UI approached Croatia osiguranje, the largest insurance company in Croatia, with a proposition that they initiate a title insurance program. Croatia osiguranje has responded favorably to the concept and has developed a draft proposal for banks to consider. As of the writing of this final report, the proposal is still under review by UNDP and UI, which will suggest changes to Croatia osiguranje before presentation to potential participating banks. The UNDP guarantee fund was amended to use the guarantees as reinsurance for Croatia osiguranje. UI and UNDP approached four banks: PBZ, Croatia banka, Nova banka and HBOR to participate in the property title insurance program. The banks have expressed interest and are awaiting the Croatia osiguranje proposal to consider their participation.

COOPERATION WITH THE LOCAL GOVERNMENT REFORM PROJECT

There were clear potential synergies between USAID's ECRA and Local Government Reform Project, which were being implemented by the Urban Institute. With USAID's support, ECRA staff approached the LGRP project to identify specific areas of mutual interest. The results of cooperation between the USAID ECRA and LGRP projects included:

- Nine mayors from ECRA partner municipalities participated in the study tour to France on Regional Local Government Cooperation, which included follow-up training in country for participants.



- Four ECRA partner municipalities (Dulovac, Dvor, Okucani and Vojnic) hired LGRP-trained consultants to improve municipality management practices under the LGRP cost-share local consultant component.
- LGRP conducted a training session for local governments in Drnis for this and surrounding municipalities, which also included representatives from NGOs.
- LGRP conducted a workshop on inter-governmental cooperation in Briunji that was attended by a number of ECRA municipalities.
- Three workshops were planned by LGRP for ECRA and surrounding municipalities on improving local government management.

CONCLUSIONS AND RECOMMENDATIONS FOR CONTINUED USAID ASSISTANCE

Through the ECRA housing component, UI has gained in-depth knowledge of the GoC's housing reconstruction and temporary occupant relocation/repossession of property rights programs. It has also produced insights into the problems of the real estate sector in accessing bank financing using properties as collateral for bank loans, which particularly affects SME and agricultural businesses seeking to be formed or to expand. Further, the experiences gained have given insight into problems banks confront on expanding loans to the real estate sector, especially in the ASSC. The problems with real estate lending have a particularly negative effect on economic development in the ASSC and should be addressed along with other strategies to promote SME and agricultural development in the ASSC.

Based on the insights gained by UI under ECRA, the following are recommendations to USAID/Croatia on:

- Assisting the process of refugee returns and reintegration;
- Strategies to improve access to bank loans by improving utilization of real estate as collateral, especially for SME and agricultural development projects; and
- New strategies to assist the banking sector to strengthen its lending practices and protect the banking sector from future potential crises.

*Assisting the Process of Refugee Returns and Reintegration*⁸

The main assistance USAID can provide to the GoC to assist with promoting refugee returns and reintegration is to provide technical assistance to the relevant new ministry or ministries charged with housing reconstruction and relocation programs in developing a financing strategy for reconstruction and relocation housing. The main technical constraint on completing housing reconstruction and providing

⁸ Note that demand for refugee return may be lower than assumed. UI did not undertake surveys to establish demand from refugees living in BiH and Serbia for return to their original municipalities in Croatia. However, based on experiences in selecting beneficiaries for the NHS components, it became evident that actual interest in returning to municipalities of origin in Croatia appeared much lower than International Community estimates. Further, in attempting to identify interviewees for the Government housing reconstruction beneficiary survey, UI interviewers observed that many Government reconstructed homes remained vacant. Lastly, a majority of returnees are elderly and would be leaving behind families in other parts of Croatia or in BiH and Serbia to relocate back to their municipalities of origin in Croatia.

appropriate relocation housing for temporary occupants appears to be the huge costs involved to undertake these programs during a time when the GoC is experiencing protracted deficits and is attempting to reduce recurrent budget expenditures and borrowing.

A first step in this process would be to reinstate the DCA Home Purchase Mortgage component to allow the GoC to sell State-owned housing to tenants (not just temporary occupants) with bank mortgages to finance the acquisitions and use the sale proceeds to purchase relocation housing. The GoC enacted the enabling Decree to implement this program in March 2003. As part of this reinstatement of the DCA, USAID could require that USAID be permitted to provide technical assistance to reorganize ODPR's administration of the program. Without substantial reorganization and improved management, relocation of temporary occupants will continue to pose a significant problem to the GoC. The efficacy of ODPR is receiving considerable political review within the new Government at this time and it may be a propitious moment to recommend such TA.

A second step would be to assist the relevant ministry (ies) with financing strategies to complete housing reconstruction. The remaining housing reconstruction, which mainly would be directed at Serbs living inside and outside Croatia, is estimated to cost at least \$500 million. As a condition for providing technical assistance, USAID may consider asking the GoC to evaluate contracting with a construction manager contractor (such as ASB) to manage reconstruction process and involve beneficiaries more in the process (e.g., such as giving formal opportunities to beneficiaries to review reconstruction designs before finalization and signing-off on construction inspections). Further, the GoC should assure that all reconstructed houses are habitable, which means providing water and sewerage facilities. These measures will achieve cost savings in the reconstruction and assure that beneficiaries have a habitable home to return to.

Strategies to Improve Access to Bank Loans Utilizing Real Estate as Collateral

There are two widespread problems affecting real estate and bank lending that could be addressed with technical assistance by USAID. This TA could be provided under the proposed Enhancing SME Performance project, the current agricultural development project or, perhaps in part, through the Local Government Reform Project, which already has an asset/property management component. The two problems are (a) lack of clear property title and (b) antiquated property appraisal practices in Croatia that do not meet international standards and are recognized by banks as being inaccurate to properly estimate property values.

The property title problem associated with accessing bank loans was discussed in detail, above under the sub-section Resolving Problems with Property Title. The strategy for USAID to consider is whether to continue assistance to Croatia osiguranje and the potential participating banks to initiate a private title insurance program.

Modernizing Croatia's property appraisal standards and techniques was early identified as a problem for Croatia in the Housing Assessment. However, because it was out of the scope of UI's role in the ECRA project, this issue was not dealt with under the current project. In UI discussions with banks, they revealed that they do not have any confidence in the property appraisals and, thus, mostly disregard property valuations for collateral purposes, particularly in the ASSC. This is part of the reason that banks



require substantial additional collateral for property-based loans, such as guarantors and co-debtors, particularly in the ASSC. Croatian appraisal standards use only one of the three generally accepted methods used under international standards: replacement cost. The other two accepted standards are (a) comparables and (b) income approach. Without these latter two appraisal techniques, the true value of real estate is difficult to ascertain and that is why banks have little confidence in the valuations. PBZ, for one, is interested in learning how to modernize the appraisal standards. USAID's assistance program in Poland produced modernization of appraisal practices in that country through the Polish Federation of Valuers. This project component produced manuals and training programs for appraisers on the three generally accepted methods of property valuation and can be adapted for Croatia.

Strategies to Assist Banks to Strengthen Lending Practices and Protect the Banking Sector from Potential Future Crises

There are two strategies that USAID might consider to spread risk from property loans/increase favorable loan terms and to cope with foreign exchange risks on property loans. These strategies are:

- Creation of a secondary mortgage market; and
- Development of workout strategies in the advent of substantial and sudden devaluation of the HRK to cope with the foreign currency clauses in most mortgages.

USAID already has a regional secondary mortgage market development project for SEE countries, which is financed, in part, by USAID/Croatia. Considerable groundwork has thus been undertaken to understand secondary mortgage market development in Croatia and to begin promotion of the concept. Secondary mortgage markets would spread the risk of property loans from banks (where there is generally a sizable mismatch between liabilities [short-term deposits] and long-term property loans, which creates a measure of instability) to the larger investor community. Furthermore, banks in most countries experience cycles of high liquidity and liquidity. Croatia's banking sector is currently experiencing high liquidity, but has no strategies to cope with an illiquid period, when long-term property loans may become hard to finance.

Many banks and GoC institutions are considering secondary mortgage activity, but banks remain reluctant to take the first steps because of high liquidity in the banking sector and relatively low interest rates on property loans in comparison with GoC debt interest rates. Hagera, the GoC pension fund supervisory agency, has begun to liberalize pension investment regulations that would allow for some purchase of mortgage instruments, particularly if there were accompanied by State or DCA guarantees. The Croatian SEC has been discussing regulatory procedures for secondary mortgage market issuances. The current DCA (especially if the Home Purchase component was reinstated), plus possible future DCA programs under other current and anticipated Mission projects,) could be used to create prototypes for secondary mortgage market issuances.

Most mortgages in Croatia have foreign currency clauses, which means that borrowers pay mortgage payments in Kuna, but the amount paid adjusts monthly to the foreign exchange rate with the linked foreign currency, primarily the Euro, at present. Thus, as the exchange rate fluctuates with the linked foreign currency, borrower monthly mortgage payments fluctuate at the same rate. This is not a problem if the relative exchange rate between the Kuna and the linked foreign currency remain stable. However, Croatia does not officially peg the Kuna's foreign exchange rate to the Euro and, consequently, if there



were a sudden and rapid devaluation of the Kuna relative to the Euro, borrowers (whose income typically is paid in Kuna) would have serious problems making mortgage payments. Croatia has periodically experienced rapid devaluations of its currency over the years, with the last significant devaluation occurring in 1998. Because of the banking crisis of 1998, most banks now as a rule hold most of their reserves in foreign currency banking accounts and, for that reason, are issuing mortgages with foreign currency clauses to protect against foreign currency fluctuations. However, no one has evaluated the effects of a rapid devaluation of the Kuna on borrowers' ability to pay the increased mortgage costs and the effect on the banking sector of substantial and widespread defaults due to those potentially substantial increases in mortgage payments. Discussions with the Croatian National Bank (CNB) revealed that they recognize the problem, but have do not have the resources to address the issue. Because of substantial and growing trade imbalances, some economists in Croatia are beginning to call for a devaluation of the Kuna. There are some possible strategies that can be considered, such as extending loan terms, negative amortization of loans, and instituting a GoC foreign exchange fund that is capitalized with premiums charged to borrowers, that would give time for borrowers to adjust to the increased payments and prevent massive defaults. USAID could provide technical assistance to the CNB to assess the risk of substantial devaluation on the borrowers and banking sector and propose mitigating interventions to prevent a mortgage default crises in the event of substantial devaluation of the Kuna.

ANNEX 1
LIST OF SUBSTANTIVE DOCUMENTS

LIST OF SUBSTANTIVE DOCUMENTS

The documents listed, below, are selected reports, concept papers, discussion papers, memoranda and letters that were important to the planning and implementation of the ECRA Housing Component. For easier reference, the documents are divided into four sections and are listed in chronological order of completion:

- Initial Planning
- New Housing Solutions Program
- Development Credit Authority Project
- Technical Assistance and Policy
- Additional Project Documents

1. INITIAL PLANNING

- ECRA Housing Project, Financial Sector Analysis. Prepared by: Leslie Matthews Sulenta, July 31, 2001.
- Housing Needs Assessment For The Economic And Community Revitalization Activity – Croatia. Prepared by: Urban Institute, September 2001.
- Housing Voucher Program For Croatia: Concept Paper. Prepared by: Urban Institute, September 2001.
- Housing Voucher Program For Croatia – Power Point Presentation For USAID and International Community. Prepared by: Urban Institute, October 2001.
- Housing Voucher Program For Croatia, Presentation Outline (Meeting Hand-Out for USAID and International Community). Prepared by: Urban Institute, October 12, 2001.
- ECRA Housing Solutions Demonstration Two Municipalities, Preliminary Activity Description. Prepared by: Urban Institute, January 2002.
- Memorandum Of Understanding Between USAID/Croatia and the Ministry of Public Works, Reconstruction and Construction (Draft). Prepared by: Urban Institute, January 11, 2002.
- Questionnaire for ECRA Municipalities For NHS Preparation. Prepared by: Urban Institute, March 2002.

2. NEW HOUSING SOLUTIONS (NHS) PROGRAM

- NHS Permanent Accommodations Program. Letter to Lovre Pejckovic, Assistant Minister, MPWRC. From: Ken Kopstein, Urban Institute, October 25, 2002.
- Relocation Voucher Program Manual. Prepared by: Urban Institute, August 2002.
- Reconstruction Voucher Program Manual. Prepared by: Urban Institute, August 2002.
- Stakeholder Survey For NHS. Prepared by: ICMC, January 2003.
- ECRA New Housing Solutions (NHS) Program Review (Presentation to USAID/Croatia). Prepared by: Urban Institute, January 5, 2003.
- Environmental Standards For Reconstruction Contractors – Appendix E To Housing Reconstruction Contracts. Prepared by: Urban Institute, circa June 2002.
- ICMC Final Report on ECRA Project. Prepared by: ICMC, June 2003.

- New Housing Solutions, Report on the Implementation of Economic and Community Revitalization Activity. Prepared by: ASB Office in the Republic of Croatia, circa January 2004.
- Survey of Government Reconstruction Beneficiaries – Questionnaire. Prepared by: Urban Institute, January 2004.

3. DEVELOPMENT CREDIT AUTHORITY (DCA)

- Memorandum to Sandra Goshgarian, USAID/Washington, dated October 22, 2001, from Ken Kopstein, UI, Subject: DCA Project in Croatia
- DCA Project In Croatia – Discussion of Potential Options. Memorandum to Pamela Baldwin, USAID Director, et al. From: Ken Kopstein, Urban Institute, November 12, 2001.
- USAID Development Credit Authority, Meeting Housing Needs In War-Affected Areas – Croatia, Discussion Paper. Prepared by: Urban Institute, November 2001.
- DCA Concept # 4: DCA Guarantees To Finance Supplemental Home Reconstruction In ECRA Partner Municipalities. Prepared by: Urban Institute, circa December 2001.
- Development Analysis For USAID Development Credit Authority Project, Alternative Accommodations Home Purchase In War-Affected Areas Of Croatia. Prepared by: Urban Institute, February 2002
- DCA Lender Information Paper To Prospective Lenders. Prepared by: Urban Institute, February 22, 2002
- DCA Market Survey of 14 Municipalities – Questionnaires. Prepared by: Urban Institute, March 2002.
- Economic Viability Analysis, Development Credit Authority (DCA) Project, Housing Finance – Croatia. Prepared by: Urban Institute, May 20, 2002.
- Financial Viability Analysis, Development Credit Authority (DCA) Project, Housing Finance – Croatia. Prepared by: Urban Institute, _____
- Final Survey Results For Home Improvement Loan Survey. Memorandum to Mislav Blazic, Executive Director, Product Development Division, PBZ. From: Sally Merrill and Ken Kopstein, Urban Institute, August 15, 2002.
- DCA Management And Marketing Plan. Letter to Mislav Blazic, Executive Director, Product Development Division, PBZ. From: Ken Kopstein, Urban Institute, September 18, 2002.
- ECRA DCA Marketing Plan. Prepared by: Urban Institute, January 30, 2003.
- DCA Housing Loan Terms. Letter to Mislav Blazic, Executive Director, Product Development Division, PBZ. From: Ken Kopstein, Urban Institute, February 7, 2003.
- DCA Brochure – Should I Apply For A DCA Loan. Prepared by: Urban Institute, April 8, 2003.
- DCA Brochure - Household Budget. Prepared by: Urban Institute, April 9, 2003.
- DCA Brochure – The Loan Application Process. Prepared by: Urban Institute, April 10, 2003.
- DCA Brochure – Co-Debtor and Guarantor Guidelines. Prepared by: Urban Institute, April 18, 2003.
- USAID Letter To Municipalities (Draft), Subject: New Property Improvement Loans. Prepared by: Urban Institute, May 2, 2003
- DCA Marketing Demonstration, Orientation Program For Information Officers and Supervisor. Prepared by: Urban Institute, May 5, 2003.

- DCA Home Improvement Loan Eligible Uses. USAID Letter To PBZ (Draft). Prepared by: Urban Institute, June 13, 2003.
- Qualifying Loan Schedule Reports To USAID/Croatia. Prepared by: Urban Institute and PBZ, monthly reports from June 12, 2003 – April 15, 2004.
- Development Credit Authority (DCA) Program, Update Briefing For USAID/Croatia. Prepared by: Urban Institute, August 6, 2003.
- ECRA DCA Marketing Demonstration, Community Outreach, Preliminary Final Report. Prepared by: Urban Institute, October, 2003
- Survey of DCA Borrowers – Questionnaire. Prepared by: Urban Institute, January 2004.
- UI Presentation To PBZ, March 25, 2004, Summary Notes, Review Of DCA Lending Experience And Lessons Learned. Prepared by: Urban Institute, March 21, 2004.

4. TECHNICAL ASSISTANCE AND POLICY

- Government of Croatia Program For Repossession Of Private Property Rights In War-Affected Areas – A Financing Strategy. Prepared by: Urban Institute, March 12, 2002.
- Land Registration Assessment In Areas Of Special State Concern. Prepared by: Eufrona A. Snyder, June 2002.
- Second Mortgage For Permanent Accommodations Sales To Beneficiaries. Memorandum to: Lovre Pejkoivic, Assistant Minister, MPWRC. From: Ken Kopstein, Urban Institute, October 17, 2002.
- Need To Consider Increasing Purchase Discount. Memorandum to: Lovre Pejkoivic, Assistant Minister, MPWRC. From: Ken Kopstein, Urban Institute, October 19, 2002.
- Establishing Market Rents For Areas Of Special State Concern – Croatia. Discussion Paper. Prepared by: Urban Institute, December 2002.
- Comments On Draft Decree On The Terms For Purchasing The State-Owned Family House Or Apartment In Areas Of Special State Concern. Memorandum to: Lovre Pejkoivic, Assistant Minister, MPWRC. From: Ken Kopstein, Urban Institute, January 28, 2003.
- Discussion Memorandum – State Mortgage Guarantees. Memorandum to: Lovre Pejkoivic, Assistant Minister, MPWRC. From: Ken Kopstein, Urban Institute, March 14, 2003.
- Croatia State Mortgage Guarantee Pilot Program – Presentation To The Minister. Prepared by: Urban Institute, April 2003.
- State Mortgage Guarantees (SMG), Pilot Guarantees For State-Owned Housing Sale To Tenants – Background Information And Talking Points For Minister's Presentation. Prepared by: Urban Institute, April 26, 2003.
- Property Title Indemnification Agreement – A Concept For Resolving Property Title Where Land Records Are Not Updated Or Available. Prepared by: Urban Institute, July 28, 2003.
- Background Information For Property Title Indemnification Guarantee Fund Proposal. Memorandum to: Denis Van Dam, Program Officer, UNDP. From: Ken Kopstein, August 14, 2003.
- Revised Property Title Indemnification Guarantee Fund Capitalization. Memorandum to: Mislav Blazic, Executive Director, Product Development Division, PBZ. From: Ken Kopstein, Urban Institute, September 28, 2003.

5. ADDITIONAL PROJECT DOCUMENTS

- Urban Institute Semi-Annual Report, May – October 2001. Prepared by: Urban Institute, _____
- Urban Institute Semi-Annual Report, November 2001 – April 2002. Prepared by: Urban Institute, _____
- Urban Institute Semi-Annual Report, May – October 2002. Prepared by: Urban Institute, December 17, 2002.
- Urban Institute Semi-Annual Report, November 2002 – April 2003. Prepared by: Urban Institute, _____
- Economic And Community Revitalization Activity, Urban Institute Housing Component – Interim Report. Prepared by: Urban Institute, October 2003.

ANNEX 2:
WRAP-UP MEETING TO DISCUSS DCA PROGRAM 2

AGENDA

WRAP-UP MEETING TO DISCUSS DCA PROGRAM

25 MARCH 2004

1. INTRODUCTIONS
2. CURRENT STATUS OF DCA LOANS
3. PRELIMINARY DCA BORROWER SURVEY RESULTS
4. OBSERVATIONS FROM UI STAFF INTERVIEWS WITH PBZ OFFICES, MUNICIPAL OFFICIALS AND BORROWERS ON DCA PROGRAM
5. CONSIDERATIONS FOR IMPROVING LOAN ABSORPTION IN THE ASSC
6. QUESTIONS AND ANSWERS ON SURVEY/UI OBSERVATIONS
7. COMMUNITY OUTREACH MARKETING - PERSPECTIVE OF AN INFORMATION OFFICER
8. COMMUNITY OUTREACH MARKETING OPPORTUNITIES
9. UPDATE ON TITLE INSURANCE
10. GENERAL DISCUSSION ON ANY TOPIC

UI PRESENTATION TO PBZ, MARCH 25, 2004
SUMMARY NOTES
REVIEW OF DCA LENDING EXPERIENCE AND LESSONS LEARNED

1. CURRENT STATUS OF DCA LOANS

- A. LOAN ABSORPTION FROM MAY 2003 TO MARCH 15, 2004 - \$2,202,400
- B. NUMBER OF BORROWERS - 361
- C. NUMBER OF FIRST TIME BORROWERS OR THOSE NOT OBTAINING A LOAN FOR MANY YEARS (DATA FROM SEPTEMBER 30, 2003 THROUGH MARCH 15, 2004; DEMOGRAPHIC INFORMATION ONLY STARTED TO BE RECORDED BY PBZ IN SEPTEMBER 2003) - 72 OF 173 BORROWERS (41.62%)
- D. MAIN LOCATIONS OF BORROWING ACTIVITY
(LOAN TOTALS ROUNDED TO NEAREST DOLLAR)

<u>PBZ REGION</u>	<u># OF LOANS</u>	<u>\$ ORIGINATED</u>
• KARLOVAC -	59 LOANS	\$328,624
• SISAK -	49 LOANS	\$275,241
• OSIJEK -	116 LOANS	\$825,109
• SLAVONSKI BROD -	6 LOANS	\$ 38,814
• KUTINA -	114 LOANS	\$628,104
• VALPOVO -	4 LOANS	\$ 28,757
• GOSPIC -	6 LOANS	\$ 32,505
• DUBROVNIK -	2 LOANS	\$ 11,591
• SPLIT -	5 LOANS	\$ 33,656

2. PRELIMINARY RESULTS OF SELECTED QUESTIONS FROM THE DCA BORROWER SURVEY

A) ****Next, I'd like to ask about the financial benefit you may have received by accepting a loan from PBZ, instead of financing that portion of the investment cost from some other source. Did you:**

162 (a), 133 (b) & 132 (c) Responses To Questions

	Yes	No	Don't Know.
(a) Obtain a better interest rate than you would have from another lender?	153	1	8
(b) Obtain a longer term that you would have from another lender?	26	90	17
(c) Obtain a higher loan amount than another lender would have been willing to supply?	22	87	23

B) ****Which of the following statements BEST describes the effects of the loan from PBZ on [the investment activity]? Would you say that the activity . . .**

162 Responses To Questions

- ☐ Would have happened without the loan, but on a smaller scale, over a longer period, or with a delay – 84
- ☐ Would not have happened at all without the loan – 65
- ☐ Would have had some other outcome – 7
(Specify) _____
- ☐ Would have happened on about the same scale and same schedule – 2
- ☐ Doesn't know/refuses to answer – 4

C) Approximately what share of the loan funds that you or your contractor spent on [building materials, equipment, etc.] was spent at a local store in this municipality ?

153 Responses To Questions

Specify a rough %: 50 %

144 Spent over 50% Locally

D) How did you hear about the PBZ home improvement loans? (Check all that apply)

176 Responses To Question

- ☐ Radio – 58 ☐ In a PBZ branch – 51 ☐ Information officer – 11
- ☐ Word of mouth – 38 ☐ NGO – 0 ☐ Government official – 0
- ☐ Newspapers - 7 ☐ Presentation, workshop, or another public event. - 3 ☐ Other (specify) – 8 (DCA Poster)
-

E) Was it difficult for you to travel to the PBZ office to apply for the loan?

162 Responses to Question

Yes – 13

No – 149



f) ****Have you ever borrowed money from a bank before?**

158 Responses To Question

Yes - 104 If yes →
No – 54

What was/were the loan(s) for?

☐ Car loan - 26

☐ Consumer loan - 32

☐ Business loan - 9

☐ Mortgage/housing loan - 47


☐ Other (*specify*)- 2

F) ****Was it difficult for you to find people who could serve as guarantors or co-debtors?**

152 Responses To Question

Yes – 36

No - 116



G) Did you want to borrow more money than you actually did?

161 Responses To Question

☐ Yes - 77 ☐ No - 84

H) What prevented you from borrowing more money? (Check all that apply.)

86 Responses to Question

- | | |
|---|--|
| <input type="checkbox"/> Based on my income, the bank was only willing to lend me this amount of money. – 31 | <input type="checkbox"/> I wanted to see how the investment activity went and then will borrow more money. - 2 |
| <input type="checkbox"/> The bank was not willing to lend me more money based on the investment activity. – 4 | <input type="checkbox"/> I wanted to pay off the first loan before taking out an additional loan. -0 |
| <input type="checkbox"/> I couldn't afford additional loan payments. –15 | <input type="checkbox"/> Other (specify) - 34 |
-

I) ****On a scale of 1 – 5, how did you find the loan application process (1 – very simple, 5 – very complex)**

162 Responses To Question

1 – (81) 2 – (30) 3 – (25) 4 – (14) 5 –(12)

Average Rating: 2.05

J) What was the most difficult aspect of applying for the loan?

162 Responses To Question

- | | | |
|--|--|---|
| <input type="checkbox"/> Nothing was difficult – 61 | <input type="checkbox"/> Getting the paperwork from my employer (if any) - 0 | <input type="checkbox"/> Other (specify) - 15 |
| <input type="checkbox"/> Getting title documents – 58 | | |
| <input type="checkbox"/> Finding a guarantor or co-debtor - 27 | <input type="checkbox"/> Filling out the application - 1 | |
-

K) ****On a scale of 1 – 5, how did you rate the helpfulness of the PBZ loan officer? (1 – excellent, 5 – poor)**

161 Responses To Question

1 – (108) 2 – (18) 3 – (18) 4 – (8) 5 – (9)

Average Rating: 1.7

- L) Did the PBZ loan officer provide clear explanations of the written forms and procedures if you found it difficult to understand them?

160 Responses To Question

☐ Yes - 127 ☐ No - 33

- M) ****Did you have any contact with an information officer during the loan process?**

161 Responses To Question

- ☐ No – 137
☐ Met individually with an information officer – 20
☐ Attended a session about the loans organized by an information officer – 2
☐ Other (*specify*) - 2 (telephone contact)
-

- N) ****On a scale of 1 – 3 (1 – not helpful, 3 – very helpful), how would you rate the information officer's assistance?**

24 Responses To Question

1 – (0) 2 – (4) 3 – (20)

Average Rating: 2.83

3. UI STAFF INTERVIEWS WITH PBZ REGIONAL, BRANCH & OUTLET OFFICES - SOME OBSERVATIONS

(12 PBZ Offices interviewed; 8 regional/branch offices & 4 outlets)

A) General Problems For Originating Loans

- Guarantors/Co-Debtors – Most offices cited the inability of borrowers to find qualified guarantors/co-debtors as major impediment to approving loans
- Title Problems – In areas where there was significant problems with land registries, bank officers noted that it was a substantial problem for many property owners to obtain title certificates.
- Transfer of Bank Account – Most offices cited requirement that bank account be transferred to PBZ as major impediment, e.g., some employers had specific banks for depositing employee payroll and many potential borrowers had loans/negative balances outstanding at other banks and couldn't transfer accounts.
- Special Program For ASSC – Several bank officers appreciated that PBZ put forth a special loan program for the ASSC.
- Loan Terms Not Attractive – Higher origination fees, not enough difference in interest rate from regular bank loans, short loan term (suggestion to increase to at least 10 years; other regular housing loans up to 20 years) and amount of maximum loan too small (suggest up to E 10,000 instead of US\$ 10,000)
- Too Much Paperwork – Several branches cited that the documentation required was too much for small loans and this frustrated many potential borrowers
- Mortgage Requirement Over E 5,000 – Regular bank loans do not require mortgage up to E 10,000, so branches questioned why DCA required mortgage over E 5,000
- PBZ Offices Did Not Well Understand DCA Loans For SME/Farm Purposes - There was considerable confusion expressed over use of DCA loans for SME/farm purposes; suggestions were to allow loans for purchase of tractors and cows.

B) OPPORTUNITIES

- Advertise more about SME/farm applications for DCA loans and better instruct PBZ offices about this eligibility
- Tenants in municipality and State-owned housing are significant potential for DCA loans – pursue program with municipalities and ODPR.

C) ADVERTISEMENT & PROMOTION

- PBZ offices generally were very positive toward PBZ advertising campaign for DCA
- Suggest repeat advertising campaign in Spring, when construction starts again, especially radio.

D) COMMUNITY OUTREACH

- a. Good Relationship With Information Officers - 8 of 12 offices had positive responses (mostly outlets had no opinion)
- b. Increased Number Of Loan Inquiries Due To Information Officers – 8 of 12 offices had positive responses
- c. Information Officer Referrals Better Understood DCA Loan and Application Process - 8 of 12 offices had positive responses
- d. Opinion on PBZ Conducting Community Outreach Function – 10 of 12 offices had positive response to having PBZ conduct on-going community outreach function. Differing opinions on whether this should be a regional office or branch/outlet office function. Most office personnel interviewed thought that their own staffs should do more community outreach, but needed authority/directive from Headquarters to do such activities.

4. CONSIDERATIONS FOR IMPROVING LENDING IN THE ASSC

A) DCA LOAN TERM CHANGES PROPOSED FOR MANAGEMENT BOARD APPROVAL

- Removing requirement for borrower to transfer bank account to PBZ
- Owners can qualify for loans if they are not creditworthy (under PBZ regular income criteria), or do not meet the maximum age requirement, if a qualified member of the household becomes a co-debtor
- Removing requirement for clear title certificate for loans up to E 5,000 and allowing borrowers to apply for loans with submission of the cadastral certificate or the Ministry Decision on Reconstruction and the Statement of Ownership
- Tenants in State-owned housing will be eligible for DCA loans with submission of the State document on permanent tenancy rights
- Clarifying and expanding the definition of eligible DCA loan uses for SME and agricultural purposes
- Extending the DCA loan term to up to 10 years for loans over E 5,000

B) OTHER CONSIDERATIONS FOR PROMOTING DCA LOANS

- Allow guarantors to be from same employer as the borrower
- Lower interest rate and fees (PBZ offices recommendation)
- Eliminate mortgage requirement for all DCA loans up to \$10,000 to be consistent with regular PBZ home loan products (PBZ offices recommendation)
- Proactive promotion of DCA loans for tenants in municipality and State-owned apartments and houses.
- Send DCA loan promotional letters to over 60,000 former Government home reconstruction beneficiaries.

C) OTHER MEASURES TO INCREASE PROPERTY-SECURED LOAN ACTIVITY IN THE ASSC (NOT DIRECTLY RELATED TO DCA LOANS)

- Provide access to private title Insurance to cover properties where land registries are not updated or missing.
- Modernize property appraisal process to international standards of 3 methods of valuation: (a) income, b) comparables and c) replacement cost; now only replacement cost method used in Croatia. Poland is example of socialist system converting to international standards. Modernizing appraisal techniques will give additional confidence for PBZ in originating home loans in ASSC.
- Secondary mortgage development will allow banks to spread risk of home loans and better balance short-term deposit base with long-term housing loans.

NOTE: The proposed Credit Bureau will make obtaining guarantors/co-debtors more difficult, as, presently, many guarantors guarantee multiple loans for others at different banks. Already obtaining qualified guarantors is a very difficult problem for many prospective borrowers and, thus, those qualified to be guarantors are asked to guarantee multiple loans. Credit Bureau may eliminate ability of qualified guarantors to provide guarantees for multiple borrowers. Example, mayor of one municipality guarantees a number of loans and is paying off three loans personally. Adopting international standards for property valuations may be a solution to eliminating requirement for guarantors/co-debtors. Many countries, with a reliable valuation procedure using international standards, have eliminated the guarantor requirement. PBZ could take the leadership by having its own property appraisers implement international valuation standards and further address this issue in a forum within the Croatian Bankers Association.

QUESTIONS AND ANSWERS

5. COMMUNITY OUTREACH MARKETING – AN INFORMATION OFFICER'S PERSPECTIVE

A. OBSERVATIONS ON IMPEDIMENTS TO BORROWING IN THE ASSC

- Problem in getting co-debtors and guarantors for many prospective borrowers discouraged them from making applications.
- Problem with obtaining court certified title.

B. OBSERVATIONS ON THE PBZ LOAN POLICIES AND APPLICATION PROCESS

- Different attitudes in PBZ branches led to some promoting DCA loans, some discouraging such loans.
- Loan terms for DCA not as favorable as for some other loans, e.g., short loan term increases monthly payment and low amount of loan did not let borrowers complete all the work they desired to complete.
- Other loan requirements impeded applications, such as requiring opening bank account for both borrowers and co-debtors in PBZ branches.
- PBZ branches had varying criteria for borrowers, based on county of residence, ethnicity and age, which made it more difficult for some borrowers to qualify for loans, depending on the PBZ branch.

C. OBSERVATIONS ON THE BENEFITS OF COMMUNITY OUTREACH MARKETING FOR PBZ

Community outreach helps:

- Identify opportunities for bank to improve loan product to make it more attractive for borrowers, e.g., identifying problems with opening bank accounts in branch offices, (add more examples)
- Obtain access to free radio and newspaper interviews
- Address community groups in meetings (promotes word-of-mouth publicity)
- Assist borrowers with completing applications and providing documentation to facilitate loan application process
- Facilitate contact with disabled persons and persons unfamiliar with banks or haven't had a bank loan or account for many years, who are rarely approached by any bank

NOTE: Building community outreach requires time to generate results and is a long-term process – many people started to call Information Officers at end of the project.

6. COMMUNITY OUTREACH MARKETING OPPORTUNITIES FOR PBZ

NOTE: UI employed information officers on a full time basis for only 6 months. We recognize that PBZ, in assessing the results of this pilot activity, would have to weigh prospective benefits against the cost of providing community outreach in various forms. Of course, full time information officers might be assigned more branch areas to support than were our officers and would be marketing the full range of bank loan products and services. Moreover, a number of the benefits identified below, could be realized by training and other forms of support for existing branch office personnel without additional hiring.

A. WHAT IS COMMUNITY OUTREACH

- Prospective borrower need for information on bank loans and services
- Proactive bank involvement with the community
- What are the benefits of community outreach for PBZ

B. HOW CAN PBZ ADAPT COMMUNITY OUTREACH FOR ITS OWN PURPOSES (Attracting New Customers And Increasing Loyalty Amongst Existing Customers)

Community outreach, in contrast to short-term advertising, is a long-term process, which can incorporate the following range of activities:

- Use of branch, outlet and Personal Financial Advisors for community outreach
- Use of existing customers for community outreach, e.g., referral fees or prizes
- Targeting sponsorship of community events to get maximum community exposure, with promotional activities during the sponsored events
- Sponsorship of high visibility community recognition events, e.g., annual competitive university scholarship to student member of PBZ client household, annual cash award to most entrepreneurial small business client of PBZ and fundraising with bank customers to provide periodic or annual grants to community organizations, e.g., bank sponsored raffle (get other bank clients to provide raffle prizes, such as major appliances or even a car), donation envelopes at bank teller windows or a lottery with cash prizes.

NOTE: PBZ might consider some further experimentation with these approaches, given the expressed interest by PBZ offices interviewed and which would be sustained over a longer timeframe with monitoring and evaluation of the community outreach trial.

7. TITLE INSURANCE UPDATE

(Information to be in-putted after proposal received from Croatia osiguranje, which is expected this week)

MIKE. One heads up. At the end of the agenda and handout notes, I've included an update on the Croatia osiguranje title insurance initiative. We would take care in this discussion not to revisit in any way DCA linkage to this initiative. The purpose would be to recognize that titling remains a lending constraint of particular severity in the ASSC and in passing note that this other initiative may provide some useful additional learning experience in enlarging credit access. If you have concerns about including this topic we can delete and/or discuss before Thursday.

8. GENERAL DISCUSSION

ANNEX 3:
SURVEY OF NHS RECONSTRUCTION BENEFICIARIES 3

Survey of NHS Reconstruction Beneficiaries*

Attribute Questions

- Did participant take part in the Self Help portion of the program

Response	Number	Percentage
No	28	71.8
Yes	11	28.2

- Gender

Response	Number	Percentage
Male	22	71.0
Female	9	29.0

- Category of Damage (4-6)

Response	Number	Percentage
4	5	12.8
5	22	56.4
6	12	30.8

- Please mark the category that indicates your age

Response	Number	Percentage
25-34	2	5.1
35-44	1	2.6
45-54	4	10.3
55-64	11	28.2
65+	21	53.8

- Highest education completed by head of household _____ year/grade?

Response	Number	Percentage
0	1	2.6
1	3	7.7
2	2	5.1
3	2	5.1
4	13	33.3
6	2	5.1
8	4	10.3
9	2	5.1
11	4	10.3
12	5	12.8
14	1	2.6

* Results from ASB's survey of 39 of the 98 reconstruction beneficiaries.

	Number	Minimum	Maximum	Average
(NHS) Highest education completed by head of household (years)	39	0	14	6.28

- What is your working situation?

Response	Number	Percentage
Employed Fulltime	1	2.6
Unpaid Fulltime on farm, family of home business	4	10.3
Unemployed, seeking work	7	17.9
Unemployed, not seeking work	2	5.1
Retired	25	64.1

- If employed, please mark the category that indicates the majority of your expected income

Response	Number	Percentage
Agriculture	3	9.7
Other	28	90.3

- What is your approximate total household monthly income (including all members of the household) from all sources including formal and informal employment, pensions, rental income, government subsidies, and remittances?

Response	Number	Percentage
Under HRK 1,000	2	40.0
1,000 HRK to 3,500 HRK	3	60.0

- How many family members intend to reside here after reconstruction?

Response	Number	Percentage
0	17	43.6
1	1	2.6
2	3	7.7
3	4	10.3
4	10	25.6
5	3	7.7
7	1	2.6

	Number	Minimum	Maximum	Average
(NHS) How many family members intend to reside here after reconstruction?	39	0	7	1.65

- How many people reside here now (not including you)?

Response	Number	Percentage
0	10	25.6
1	18	46.2
2	5	12.8
3	3	7.7
4	2	5.1
6	1	2.6

	Number	Minimum	Maximum	Average
(NHS) How many people reside here now (not including you)?	39	0	6	1.31

- Did you live in the house before it was damaged?

Response	Number	Percentage
No	4	10.3
Yes	35	89.7

- When did you submit your request for reconstruction to the MPWRC?

Response	Number	Percentage
1996	1	2.6
1997	7	17.9
1998	8	20.5
1999	10	25.6
2000	6	15.4
2001	5	12.8
2002	2	5.1

General Satisfaction-Total Process

Please use the following categories for your responses

1. Strongly Disagree
2. Disagree Somewhat
3. Uncertain
4. Agree Somewhat
5. Strongly Agree

	Number	Minimum	Maximum	Average
Information of the laws affecting my housing reconstruction was easy to obtain prior to my knowledge/registration in the NHS program and contact by ICMC.	39	1	5	3.82
The NHS housing program was well explained by ICMC or ASB upon my initial registration	39	2	5	4.33
I was satisfied with access to ICMC and ASB officials during the reconstruction process.	39	4	5	4.74
The condition of my home was as I expected upon taking residence.	27	1	5	4.63

	Number	Minimum	Maximum	Average
I would recommend the NHS program to other potential returnees	39	2	5	4.49
I was satisfied with the pace and progress of the NHS program.	39	3	5	4.64

DESIGN ISSUES

- Did you make any changes to the design of your home?

If yes,

- At what stage were the changes made

Response	Number	Percentage
No changes made	5	62.5
When inspecting progress on construction	3	37.5

- With whom did you make the change?

Response	Number	Percentage
Made changes with the help of NHS officials	3	37.5
Not applicable, no changes made	5	62.5

- Did you pay anything for the change to the design?

Response	Number	Percentage
No	3	37.5
Not applicable	5	62.5

- If you did not make any changes to the design, why didn't you?

Response	Number	Percentage
No changes desired	5	62.5
Not applicable	3	37.5

- Did you personally participate in the inspections? Or did you send another family member or other representative?

Response	Number	Percentage
I participated in the inspections	8	30.2

Technical Satisfaction

Interviewee is a participant in the Self Help component

- Which aspects of the self-help program did you participate in?
 - Foundation...cleaning

Response	Number	Percentage
No	3	37.5
Yes	5	62.5

- Roofing...Brickwork

Response	Number	Percentage
No	4	40.0
Yes	6	60.0

- Installation of windows, doors, window shutters

Response	Number	Percentage
No	6	54.5
Yes	5	45.5

- Flooring, Tiling, finishing work

Response	Number	Percentage
No	3	33.3
Yes	6	66.7

ANNEX 4
SURVEY OF GOVERNMENT OF CROATIA RECONSTRUCTION BENEFICIARIES

Survey of Government of Croatia Reconstruction Beneficiaries

Respondent's gender:

Response	Number	Percentage
Female	20	46.5
Male	23	53.5

Damage category of home before reconstruction (4-6):

Response	Number	Percentage
4	11	27.5
5	13	32.5
6	16	40.0

Attribute Questions

1. How old are you?

Response	Number	Percentage
25-34	1	2.4
35-44	3	7.1
45-54	8	19.0
55-64	7	16.7
65+	23	54.8

2. Highest education completed by head of household?

Response	Number	Percentage
No education	5	11.6
Primary school	23	53.5
SSS	10	23.3
VSS	1	2.3

3. How many people reside in this house?

Under 18	Number	Percentage
0	35	83.3
1	2	4.8
2	3	7.1
3	2	4.8

Over 18	Number	Percentage
1	13	31.0
2	15	35.7
3	6	14.3
4	4	9.5
5	3	7.1
7	1	2.4

How many people reside here now not including beneficiary	Number	Percentage
0	13	30.2
1	14	32.6
2	5	11.6
3	2	4.7
4	5	11.6
5	3	7.0
6	1	2.3

Responses	Minimum	Maximum	Average
43	0	6	3.82

4. Did you live in this house before it was damaged?

Response	Number	Percentage
No	4	9.5
Yes	38	90.5

5. How did you get information about the process of applying for Government reconstruction?

- ☐ Municipal official ☐ NGO ☐ Newspaper, radio, other media
☐ County official ☐ Friend or relative ☐ Other (*specify*)

Municipal Official	Number	Percentage
No	26	61.9
Yes	16	38.1

County Official	Number	Percentage
No	36	85.7
Yes	6	14.3

NGO	Number	Percentage
No	36	85.7
Yes	6	14.3

Friend or Relative	Number	Percentage
No	26	61.9
Yes	16	38.1

Newspaper or Radio	Number	Percentage
No	38	90.5
Yes	4	9.5

Other	Number	Percentage
No	42	100.0

6. Did you receive any assistance from an NGO in the application process?

If yes → a. Which NGO(s) provided assistance?

b. What kind of assistance did the NGO(s) provide?

c. On a scale of 1 – 3 (*1 – not helpful, 2 – helpful, 3 – very helpful*), how would you rate the assistance provided by the NGO?

Response	Number	Percentage
No	31	73.8
Yes	11	26.2

Which NGO provided assistance?	Number	Percentage
	32	74.4
CRS, ASB	1	2.3
Dalmatian Solidarity (Dalmatinska solidarnost)	1	2.3
GONG and SDF	1	2.3
HHO	1	2.3
IRC	1	2.3
Not available	1	2.3
SDF	2	4.7
SDF, IFOR	1	2.3
UNHCR	2	4.7

What information was provided	Number
Basic details and information about application process	1
Basic information, help ba obtaining documents	1
Firs information about the program was distributed through an NGO	1
Legal advising	1
Legal assistance	1
Legal assistance and advising	1
Made photocopies of documents and explained all laws and regulations related to reconstruction program	1
Obtaining citizenship documents	1
Obtaining title documents	1
Representatives of SDF informed us about our right for the reconstruction.	1
Roof, windows and stable roof	1

How would you rate the NGO assistance	Minimum	Maximum	Average
10	2	3	2.40

7. On a scale of 1 – 3 (*1 – not helpful, 2 – helpful, 3 – very helpful*), how helpful were County employees, local or municipal officials, or other Government officials in assisting you with the application process?

40 Answers to Question

Responses	Minimum	Maximum	Average
40	1	3	2.45

8. Where were you living when you applied for reconstruction assistance?

43 Answers to Question

Response	Number
At brother's place in Zadar	1
At brothers house, Djevske	1
At daughter's place	1
At daughter's place in Serbia	2
At friend's place	1
At sister's place in Sibenik	1
At son's place	1
At the neighbours in Devrske	1
Banja Luka, Bosnia	1
Becej, Serbia	1
Beli Manastir	2
Benkovac, Okucani	1
Cousin's house, neighbor village	1
Ernestinovo	1
Gejkovac 42, Vojnic	1
Germany	1
In a garage next to the house	1
In a workshop next to the house	1
In Vojnic, someone else's house	1
Kostolac, pozarevac, Serbia	1
Neighbour's house	1
Nova Gradiska	1
Okucani	1
Petrinja	1
Petrinja, state owed apartment	1
Petrovci 32, Vukovar	1
Sremska Mitrovica, Serbia	1
Tenje, osijek	1
The same address but in the out building (summer kitchen)	1
The same address	1
The same house	6
Trnava	1
Varazdin	1
Vukovar	2

9. When did you apply for reconstruction assistance?

40 Responses to Question

Year	Number	Percentage
1996	4	10.0
1997	12	30.0
1998	12	30.0
1999	2	5.0
2000	7	17.5
2001	2	5.0
2002	1	2.5

10. When did the government begin reconstructing your house (e.g. clearing the site, demolishing your damaged home)?

40 Responses to Question

Year	Number	Percentage
1999	1	2.5
2000	2	5.0
2001	2	5.0
2002	4	10.0
2003	31	77.5

11. When was the reconstruction of your house completed by the government?

41 Answers to Question

Year	Number	Percentage
2000	3	7.3
2001	2	4.9
2002	2	4.9
2003	33	80.5
2004	1	2.4

	Minimum	Maximum	Average
Time between initial application and start of construction (months)	7	83	47.42
Time between start of construction and completion of construction (months)	1	19	4.05
Time between initial application and completion of construction (months)	10	86	50.95

	Minimum	Maximum	Average
Time between initial application and start of construction (whole years)	1	7	4.29
Time between start of construction and completion of construction (whole years)	0	2	.18
Time between initial application and completion of construction (whole years)	1	7	4.41

12. How long do you intend to live in this home?

41 Answers to Question

Response	Number	Percentage
Indefinitely - no plans to leave	41	100.00

13. If you plan to leave, do you intend to:

- ☐ Sell the home ☐ Have others (friends/family) occupy it
☐ Rent the home ☐ Other (*specify*)

14. Rate the following, existing conditions for the area around your house (circle one).

High

a. Road quality	1	2	3	4	5
b. Sewer system quality	1	2	3	4	5
c. Electricity availability	1	2	3	4	5
d. Water quality	1	2	3	4	5
e. Education (quality of schools)	1	2	3	4	5

	Number	Minimum	Maximum	Average
Road quality	42	1	5	2.36
Sewer system quality	27	1	5	1.74
Electricity availability	41	1	5	3.66
Water quality	41	1	5	4.10
Education - quality of school	37	1	5	1.57

15. When making your decision to return, was it important that you have neighbors who lived in close proximity?

If yes → On a scale of 1 to 5, how important was the proximity of your neighbors in your decision to return to your home?

25 Answers to Question

Number	Minimum	Maximum	Average
25	1	5	3.96

16. How important were the following factors on your decision to return to your home?

	Not so Important			Very IMPORTANT	
a. Previous living situation was not good	1	2	3	4	5
b. Desire to return to my Community	1	2	3	4	5
c. Infrastructure improvements (e.g., access to running water, electricity)	1	2	3	4	5
c. Other (<i>specify</i>)	1	2	3	4	5

	Number	Minimum	Maximum	Average
16a. Previous living situation was not good	41	1	5	3.02
16b. Desire to return to my community	41	3	5	4.71
16c. Infrastructure improvements	41	1	5	3.83
16d. Other	0	N/A	N/A	0.00

General Satisfaction - Total Process

Please use the following categories for your responses:

	Strongly Disagree	Disagree Somewhat	Uncertain	Agree Somewhat	Strongly Agree
17. Information on the laws affecting my housing reconstruction was easy to obtain.	1	2	3	4	5
18. The Government housing program was explained well by government officials.	1	2	3	4	5
19. I was satisfied with access to government officials during the reconstruction process.	1	2	3	4	5
20. I was satisfied with the reconstruction designs.	1	2	3	4	5
21. I would have wanted more personal inputs into the reconstruction designs and construction process.	1	2	3	4	5
22. The condition of my home was as I expected upon taking residence.	1	2	3	4	5
23. I would recommend the Government program to other potential returnees.	1	2	3	4	5
24. I was satisfied with the pace and progress of the government program.	1	2	3	4	5

	Number	Minimum	Maximum	Average
17. Information on the laws affecting my housing reconstruction was easy to obtain.	42	1	5	4.02
18. The Government housing program was explained well by government officials.	42	1	5	3.69
19. I was satisfied with access to government officials during the reconstruction process.	41	1	5	3.63
20. I was satisfied with the reconstruction designs.	40	1	5	4.03
21. I would have wanted more personal inputs into the reconstruction designs and construction process	40	1	5	3.28
22. The condition of my home was as I expected upon taking residence.	41	1	5	3.61
23. I would recommend the Government program to other potential returnees.	42	3	5	4.50
24. I was satisfied with the pace and progress of the government program.	42	2	5	4.17

25. If given the opportunity and if the Government would have given you the money, would you have wanted to do any of the construction work yourself?

How much of the work would you have liked to have done yourself?

- If yes → ☐ All of the work
☐ Some of the work

What kind of work would you have been interested in doing (e.g., clear the site, plastering, etc.)

42 Answers to Question

Response	Number	Percentage
No	34	81.0
Yes	8	19.0

Response	Number	Percentage
***missing information	2	4.7
All of the work	4	9.3
Not applicable	34	79.1
Some of the work	3	7.0

Response	Number
***missing information	2
All works would be done by son in law	1
Clear the site, plastering, carpentry	1
Most of works were done by the beneficiary him self even before reconstruction started. After signing reconstruction contract he asked to get a refund for the works that he completed. It was approved, but the money is still not transferred into his account	1
Not applicable	37
Water plumbing system, sewer and reconstruction works on out buildings.	1

26. What were the best aspects of the reconstruction program?

Response	Number
***Missing information	7
All works	2
All works are completed in timely manner, and with great quality	1
All works on the house.	1
All works were done properly. Name of the contractor is G.P.Strmac	1
Carpentry and roof, although carpentry works are still not completed	1
Choice of contractor was great	1
Choice of constructor (all reconstruction works were done properly)	1
Clearing the site, all works and completion of works	1
Everything was complete in timely manner, and properly	1
Everything was properly done	1
I was not present when contractors were working and I don't know the details.	1
Intensity of works, Quality of construction material used for building and plastering	1
Most of works	8

Response	Number
Preparation phase (design and communication from the court certified construction office)	1
Quality of works	1
Relations between government official and my self. Humanity, respect, and availability of information	1
Roof	2
Roof and bathroom	1
Roof and outside works, carpentry	1
Roof and walls	1
Roof, electrical details, walls	1
Roof, inside plastering, outside plastering, carpentry	1
Satisfied with most of the works completed (outside and inside decoration, roof)	1
The best aspect are works it self, especially carpentry, windows and doors	1
The fact that GOC decided to reconstruct our house	1
There is no best aspect	1
Works it self	1

27. What were the worst aspects of the reconstruction program?

Response	Number
***Missing information	5
1. Carpentry 2. Construction of walls	1
Basement	1
By constructing ceramic tiles in a bathroom, it was not done up to the sealing. GOC reconstruction program was covering it only up to the half of wall.	1
Carpentry (front door), by construction of roof, part of it, above terrace was not completed.	1
Carpentry (outside and inside) Windows Walls	1
Connection to electricity	1
Connection to water plumbing system was cut off, and I had to pay for the new connection. Cleaning the site was not done	1
Considering the fact that we live in Germany we have had to come several times to Croatia to deliver necessary documents	1
Construction waste is still not moved away	1
Contractors were lazy and borrower had to check their work out.	1
Floors are not isolated; we still have concrete floors in a house.	1
Floors, septic tank was not constructed, electricity connection, water plumbing system	1
Front doorstep	1
Furniture is still not delivered	1
Furniture is still not delivered, and we cannot move into our house.	1
I have had to pay for water well cleaning and disinfection, and doors are missing	1
I moved into the house in late October 2003 due to fact that there was no connection to the electricity. Connection to public water I have had to pay by my self	1
I still did not move in, Commission did not give me my keys, I was forced to sign handover, there is no water and electricity. I was robbed by the contractor. From my stable, they have build an inside walls, and roofing tiles disappeared.	1
I was not satisfied with the design study, living room is on the north side of the house and necessary rooms on the south of the house. Sanitary equipment is out of standard, and we had to change water boiler after one month of use	1
In the very beginning, my house was estimated to the 1st level of damage although it was	1

Response	Number
totally destroyed, after four complaints, reconstruction was approved.	
Inside reconstruction works and slapdash quality of works	1
Inside walls construction	1
Isolation, and beneficiary is still missing furniture (kitchen equipment, heater, stove, etc)	1
Long term procedure, number of eligible square meters, four family members were denied	1
None	1
Panelling	1
Planned works were not completed, walls are still damaged, furniture is still not delivered etc.	1
Septic tank is not constructed	1
Sewer pipes were damaged during the reconstruction, and no one repaired it later.	1
Sewer system is not included into reconstruction program, electricity, stows are still not received	1
Sewer system was not completed, and windows, carpentry and electricity was done by IRC although government was supposed to do it	1
Sewer systems are not included into reconstruction program	1
Small number of square meters	1
The entrance to the attic is designed to be from the inside, and it was done from the outside. Due to fact that we are both elderly people it is difficult for us to go out to reach the attic	1
The fact that not all necessary works could be included into cost estimate. For example, reconstruction of works was not covered by the GOC reconstruction program.	1
There is no outside lightening ball	1
Water plumbing system was not included into reconstruction, and house was not build on the old construction base and my old basement is not protected any more.	1
Water plumbing system, inside plastering	1

DESIGN ISSUES

28. Did you make any changes to the design of your home with the Government engineer or contractor?

42 Answers to Question

Response	Number	Percentage
Don't know	1	2.4
No	26	61.9
Yes	15	35.7

29. At what stage were the changes made?

- ☐ When reviewing the design study
 ☐ At a special meeting
☐ When inspecting progress on construction
 ☐ Other (*specify*)

15 Answers to Question

Response	Number	Percentage
When inspecting progress on construction	9	31.0
When reviewing the design study	5	35.7
Other (specify)	1	14.3

Other	Number
While photographing the house, and preparation of the draft.	1

30. With whom did you make the change? ☐ With the help of a government official
☐ Directly with the construction company

43 Answers to Question

Responses	Number	Percentage
***missing information	3	7.0
Directly with the construction company	7	16.3
Not applicable	27	62.8
With the help of a government official	6	14.0

31. Did you pay anything for the change to the design? ☐ Yes ☐ No

12 Answers to Question

Response	Number	Percentage
No	10	83.3
Yes	2	16.7

32. If you did not make any changes to the design, why didn't you?
- ☐ Did not know if changes were possible ☐ Official refused to make the change
☐ Change would have cost me too much ☐ No change desired
☐ Construction company refused to make the change ☐ No opportunity to provide personal inputs

Responses	Percentage
Didn't know changes possible, AND would have cost too much	3.3
No changes desired	53.3
Didn't know changes possible	3.3
Change would have cost too much	10.0
Construction comp any refused to make change	13.3
Change would have cost too much, AND official refused	3.3
No opportunity to provide inputs	13.3

33. If you could obtain a loan to complete more reconstruction, what additional work would you want to accomplish?

Response	Number
***Missing information	1
Basement, sewer	1
Decoration of the living area	1
Do not want a loan	1
Floors, septic tank, electricity connection, water plumbing system	1
Floors, Water plumbing, sewer	1
Front doorstep	1
I am to old to take the loan	2
I borrowed 3000 €from PBZ (DCA loan), with that amount of money, I have completed most of reconstruction works that were not included into GOC reconstruction program. (Painting walls, ceramic tiles for bathroom, roof above the entrance)	1
I would like to repaint the walls, to change ceramics in the bathroom, and to isolate floors.	1
I am social welfare beneficiary and could not afford a loan	1
Inside reconstruction, floors, plastering, electricity	1
Laminate floor, ceramic tiles	2
Not interested into loans	1
Nothing	1
Out buildings	1
Out buildings, (garage, wood shad)	1
Out buildings, stable and purchase of cattle	1
Outbuildings (stable)	1
Outbuildings construction and yard design	1
Outbuildings, stable and poultry house	1
Outside plastering	1
Outside plastering and inside decoration of the house	1
Outside plastering, footpads etc.	1
Parquet and ceramic tiles	1
Reconstruction of ground floor.	1
Reconstruction of the attic	1
Reconstruction of two more rooms (living area)	1
To complete all wished works that were not included into reconstruction. (one more floor)	1
To complete reconstruction works on a house, plastering, footpads, outbuildings	1
To complete the reconstruction of the rest of living area, new floors and reconstruction of summer kitchen	1
To extend the roof	1
To old to take the loan	3
To widen the living area	1
Water plumbing system and inside walls.	1

34. Did you or another family member or representative personally participate in any inspection of the reconstruction before the house was handed over?

- ☐ I participated
 ☐ No one representing my family participated.
- ☐ Another family member or other representative participated.
 ☐ Other (*specify*)

41 Answers to Question

Response	Number	Percentage
I participated	30	73.2
Another family member or other representative participated	5	12.2
No one representing my family participated	4	9.8
Other (specify)	2	4.9

Other	Number	Percentage
Daughter	1	2.3
Due to a fact that beneficiary already had keys of the house, there was no handover.	1	2.3
My son also participated, but we didn't have any official handover, and did not receive any documentation related to reconstruction on our house.	1	2.3
Not applicable	37	86.0
Son	2	4.7
There was no inspection of the reconstruction, in the very end of works one part of the furniture was delivered, no other contact.	1	2.3

35. If you personally participated in any of the inspections, did you:

- a. Feel that you had the opportunity to express your concerns and/or indicate problems that might need correction? ☐ Yes ☐ No
- b. Identify any problems in the reconstruction work? ☐ Yes ☐ No

35a	Response	Percentage
No	11	29.7
Yes	26	70.3

35b	Response	Percentage
No	17	42.5
Yes	23	57.5

36. If you identified a problem or problems with the reconstruction work, what were they?

Response	Number
***Missing information	3
All changes that were requested I have had to pay separately	1
All problems were corrected while reconstruction process.	1
All works were not completed	1
Attic entrance is from the outside (no stairs)	1
Beams, the entrance to the attic was too small	1
Beneficiary wanted instead of the window to have a wall, and for window to be relocated.	1
Carpentry	1
Construction base	1
Demolition of sewer	1

Response	Number
Design of rooms (scheme)	1
Due to fact that they didn't want to change the place of the rooms, we live like in a tunnel	1
I wanted the to up build one more raw of bricks to the attic, but I could not afford it, and it was left with only one raw.	1
I was planning for a roof to be turned to the opposite side	1
Inside walls are build with old bricks, sealing is broken, chimney is not isolated	1
Inside walls reconstruction	1
Isolation	1
Main entrance to the house does not have a roof.	1
Most of works completed were not done correctly. Roof is the only positive thing)	1
Not applicable	14
Problems are still not solved	1
Roof is to short	1
Roof was connected on other house that was higher than the reconstructed one and water was floating all over it.	1
Slapdash quality of works	1
Small scale repairs	1
Storage room was not completed	1
Wash-basin was not properly installed, but later on the problem was solved	1
Window knobs are missing, attic door is missing	1

37. If you identified any problems, did the contractor correct them all? If no, what problems were not corrected?

43 Answers to Question

Response	Number	Percentage
No	14	32.6
Not applicable	16	37.2
Yes	13	30.2

Response	Number
Constructors didn't want to change it next to the drawing	1
Could not afford it	1
Due to fact that I live alone, everybody is humiliating me.	1
It was not possible to make any changes because of the construction scheme	1
It would cost me to much	1
None of mentioned problems were corrected	1
None of the problems were corrected	1
They were not interested in doing it	1
They were promising to do it, but they didn't	1
Water plumbing system	1

EMPLOYMENT / INCOME QUESTIONS

38. What is your working situation?

- | | |
|---|---|
| <input type="checkbox"/> Employed Fulltime | <input type="checkbox"/> Unemployed, seeking work |
| <input type="checkbox"/> Employed Part time (20 hours a week) | <input type="checkbox"/> Unemployed, not seeking work |
| <input type="checkbox"/> Unpaid Fulltime on farm, family of home business | <input type="checkbox"/> Retired |
| <input type="checkbox"/> Unpaid Part time on farm, family, or home business | <input type="checkbox"/> Other (<i>specify</i>) |

42 Answers to Question

Response	Number	Percentage
Employed full time	2	4.8
Retired	29	69.0
Unemployed, seeking work	8	19.0
Unpaid Part time on farm, family, or home business	1	2.4
Other (specify)	2	4.8

Response	Number
In a process of retiring	1
Social benefit	1

39. Please provide more information about the type of work you do:

- | | |
|---|---|
| <input type="checkbox"/> GOC, public institutions | <input type="checkbox"/> Owner / Co-owner – private company |
| <input type="checkbox"/> Private company (LTD) | <input type="checkbox"/> Owner / Co-owner – SME & Crafts |
| <input type="checkbox"/> SME & Crafts | <input type="checkbox"/> Not applicable |
| <input type="checkbox"/> Manufacturing | <input type="checkbox"/> Other (<i>specify</i>) |
| <input type="checkbox"/> Services (e.g., construction tradesperson, mechanic, beautician or café owner) | |

Response	Number
GOC public institutions	1
Not applicable	2
Other (specify)	2
Owner / Co-owner – private company	2
Private company (LTD)	1

Other	Number
Agriculture, cattle barring	1
Pension	2

40. If employed, please mark the category that indicates the majority of your expected income

- | | | |
|--|----------------------------------|---|
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Sales | <input type="checkbox"/> Other (<i>specify</i>) |
| <input type="checkbox"/> Manufacturing | <input type="checkbox"/> Student | |
| <input type="checkbox"/> Pension (retired) | | |

Response	Number
Agriculture	2
Other	3

Other	Number
Invalid Pension	1
Monthly Income	1
Pension	1

41. What was your approximate total, personal monthly income from all sources including formal and informal employment, pensions, rental income, government subsidies, and remittances?

38 Answers to Question

Number	Minimum	Maximum	Average
38	1,100	50,000	12,288.63

42. What was your approximate total, monthly income (including all members of the household) from all sources including formal and informal employment, pensions, rental income, government subsidies, and remittances?

29 Answers to Question

Number	Minimum	Maximum	Average
29	3,600	54,000	15,738.21

	Number	Percentage
Less than 1,000 Kuna	16	55.2
1,000 - 3,500 Kuna	11	37.9
3,500 - 5,000 Kuna	2	6.9

**ANNEX 5:
SURVEY OF DCA BORROWERS**

Survey of DCA Borrowers

Borrower Survey Basic Information

Borrower sex:

163 Answers to Question

Sex	Responses	Percentage
Female	65	39.9
Male	98	60.1

Loan Verification

- 1) PBZ provided information about each borrower's loan amount in advance. The interviewer asked: Is your loan for the amount of _____?

163 Answers to Question

	Minimum	Maximum
Amount	2,197	11,437

- 2) Do you have more than one loan with PBZ?

160 Answers to Question

Response	Number
Yes	20
No	140

- 3) What are your monthly payments for your property improvement loan, and/or what is the interest rate charged on the loan?

163 Answers to Question

Rate	Number	Percentage
6.00%	1	0.6
6.36%	162	99.4

- 4) What is the term of the loan – when does it need to be paid off?

163 Answers to Question

	Minimum	Maximum
Term in Months	24	84

163 Answers to Question

Month Loan Was Received	Number	Percentage
June	4	2.5
July	23	14.1
August	32	19.6
September	41	25.2
October	42	25.8
November	20	12.3
December	1	0.6

163 Answers to Question

Year of Final Payment	Number	Percentage
2005	4	2.5
2006	20	12.3
2007	7	4.3
2008	51	31.3
2009	10	6.1
2010	71	43.6

Demographic Information

5) Which town is your primary residence located in? _____

163 Answers to Question

Town	Number	Percentage
Babina Greda	1	0.6
Badljevin	1	0.6
Banovci	1	0.6
Barilovic	1	0.6
Batinjani	2	1.2
Beli Manastir	14	8.6
Bijelo Brdo	1	0.6
Bilje	2	1.2
Blinjski kut	1	0.6
Bogdanovci	2	1.2
Borojevici, Kostajnica	1	0.6
Brestaca-novska	1	0.6
Cavtat	1	0.6
Ceminac	1	0.6
Ceric	1	0.6
Cetingrad	1	0.6
Daruvar	2	1.2
Donji Velemenic	1	0.6
Draz	1	0.6
Duga Resa	1	0.6

Town	Number	Percentage
G. Polje	1	0.6
Gornji Bogicevci	2	1.2
Gospic	1	0.6
Grubisno polje	2	1.2
Gvozd	2	1.2
Ilok	2	1.2
Ivanovo selo	1	0.6
Jarce Polje	1	0.6
Jasenovac	1	0.6
Kamensko	2	1.2
Karlovac	8	4.9
Karlovac, Turanj	1	0.6
Klobucak	1	0.6
Knezovljani	1	0.6
Knin	1	0.6
Kostajnica	3	1.8
Lipik	2	1.2
Lovas	1	0.6
Majur	1	0.6
Marinci-Vinkovci	1	0.6
Marinci	1	0.6
Moscenica	2	1.2
Nijemci	1	0.6
Novi Farkasic	1	0.6
Novska	15	9.2
Nustar	1	0.6
Okucani	3	1.8
Osijek	2	1.2
Otocac	1	0.6
Otok, Vinkovci	2	1.2
Pakrac-Kusonje	1	0.6
Pakrac	16	9.8
Petrinja	11	6.7
Popovic brdo	1	0.6
Pozega	1	0.6
Prekopa	1	0.6
Prekopakra	1	0.6
Sirac	1	0.6
Slavonski Brod	1	0.6
Slunj	3	1.8
Stari Jankovci	2	1.2
Stubalj	1	0.6
Suhopolja	1	0.6
Sunja	3	1.8
Tenje	1	0.6
Topusko	2	1.2

Town	Number	Percentage
Tovarnik	1	0.6
Trnava	1	0.6
Turanj	1	0.6
Vinkovci	3	1.8
Virovitica	1	0.6
Vodinci	1	0.6
Vojnic	2	1.2
Vukovar	5	3.1

6) How old are you?

163 Answers to Question

Minimum Age	Maximum Age	Average
23	69	47.56

7) How many people reside in your household for more than 10 months out of the year?

163 Answers to Question

Number of Children (under 18)	Number	Percentage
0	73	44.8
1	40	24.5
2	36	22.1
3	11	6.7
4	3	1.8

Descriptive Statistics

Minimum Number	Maximum Number	Average
0	4	.96

161 Answers to Question

Number of Adults (over 18)	Number	Percentage
1	12	7.5
2	58	36.0
3	40	24.8
4	37	23.0
5	9	5.6
6	3	1.9
7	1	0.6
8	1	0.6

Descriptive Statistics

Minimum Number	Maximum Number	Average
1	8	2.94

8) Highest level of education completed?

162 Answers to Question

Type of School	Number	Percentage
NKV (primary school)	3	1.9
PKV (trade school after primary school - basic)	1	0.6
VKV (trade school after primary school - advanced)	3	1.9
SSS (high school diploma - no occupation)	104	64.2
VSS (4-year college degree)	39	24.1
VSS+ (graduate degree)	3	1.9
NS	9	5.6

Loan Uses

9) When you applied for the loan, what did you plan to use the loan for?

163 Answers to Question

Loan Activity (Initial Proposed Use)	Number
Adaptation of business premises (roof, inside plastering, carpentry)	1
Adaptation of family house	1
Agricultural equipment (parts for the tractor), metal sheet for the roof, two heifers, refrigerator, oven, washing machine	1
Apartment improvement	1
Apartment improvement	1
Apartment improvement	1
Attic	1
Attic, Bathroom, Thermal isolation	1
Attic, main entrance into the house	1
Attic, roof	1
Bathroom renovation, and reconstruction of two more rooms	1
Bathroom (electricity, ceramic tiles, sanitary equipment, water plumbing)	1
Bathroom, central heating, attic, water plumbing	1
Bathroom, floors, and reconstruction of rooms on top floor	1
Bathroom, sewer system, water plumbing	1
Business purposes (to redecorate living space into small store) ceramic tiles, painting walls, inside plastering, electro installations	1
Business premises adaptation	1
Carpentry	1
Carpentry and inside redecoration	1
Carpentry, bathroom reconstruction	1
Carpentry, inside plastering, thermal isolation	1
Carpentry, inside reconstruction	1
Carpentry, thermal isolation, reconstruction works on balcony	1
Carpentry, wooden floors, bathroom, interior plastering	1
Central heating system.	1
Central heating system	3
Central heating system	1
Central heating system and sanitary equipment	1
Central heating system, and reconstruction works on the house	1

Loan Activity (Initial Proposed Use)	Number
Central heating system, construction of chimney	1
Central heating system, garage, attic	1
Central heating system, outside plastering	1
Central heating system, painting walls, sanitary equipment	1
Central heating system, painting walls and ceilings, parquet	1
Central heating system, painting walls, floors in 3 rooms, ceramic tiles on the walls in the kitchen and bathroom, paint window and door trim	1
Central heating system, roof above the porch, plastering, change of entrance door, change of glass wall.	1
Change of roof and carpentry	1
Completion and inside reconstruction of the house (thermal isolation)	1
Completion of reconstruction works	1
Construction of a garage	1
Construction of pantry and the terrace roof	1
Construction of the attic and three additional rooms, floors and inside decoration	1
Construction of upper floor and garage	1
Electricity, water connection, central heating system, carpentry	1
Finished the works on the house.	1
Flat adaptation.	2
Floor heating system. Outside plastering	1
For roof change and inside works (floor, walls)	1
Garage, floor, attic reconstruction, central heating system	1
Heating system (Gas)	1
Heating system, parquet, roof	1
Home improvement - finish the attic so that you can live in it - the son is getting married soon and he needs a place to live	1
Home improvement - plastering exterior	1
Home improvement - wooden floor (parquet), exterior plastering and carpentry	1
Home improvement	2
Home improvement	3
Home improvement (plastering, thermal isolation)	1
Home improvement, central heating system	1
Home improvement, completion of inside reconstruction (parquet, stairs, bathroom)	1
Home improvement, construction of additional rooms, central heating system, out buildings, inside decoration	1
Home improvement, floors	1
Home improvement, heating system, parquet	1
Home improvement, inside plastering, outside plastering, inside decoration (Carpentry, stone fence, thermal isolation)	1
Home improvement, roof and painting the walls	1
Home improvement, roof, floor, central heating system	1
Home improvement (appliances, plastering, roof, wooden floor)	1
House adaptation.	3
House improvement, (floor, bathroom renovation, walls painting)	1
House improvement, heating system	1
House improvement, inside reconstruction, windows, doors and floors	1
House improvement.	1
House reconstruction (central heating system) and reconstruction of out buildings	1
House reconstruction (roof)	1
Improving living conditions.	1
Inside and outside carpentry	1
Inside decoration, attic, construction of rooms	1

Loan Activity (Initial Proposed Use)	Number
Inside decoration, PVC carpentry, parquet, kitchen, ceramic tiles, painting walls, central heating system	1
Inside plastering at the second floor, electricity installations, reconstruction of works completed through reconstruction program, due to a fact that none of work was done properly	1
Inside plastering, carpentry, water plumbing, electricity	1
Inside plastering, painting walls, carpentry, parquet, radiators	1
Inside redecoration, wooden floor, reconstruction of outbuildings	1
Interior reconstruction work on the house	1
Isolation of roof	1
Make improvements in the apartment	1
New roof	1
Open the store and purchasing the store equipment.	1
Outbuilding for heating system – to repair the foundation and paint the walls in the house	1
Outbuildings reconstruction	1
Outside plaster	1
Outside plaster, central heating system, water plumbing, ceramic tiles	1
Outside plastering	2
Outside plastering and attic	1
Outside plastering and inside decoration	1
Outside plastering, carpentry, water plumbing	1
Outside plastering, ceramic tiles, glass wool	1
Outside plastering, inside decoration, and outbuildings	1
Outside plastering, inside decoration, thermal isolation	1
Outside plastering, reconstruction and roof of the outbuilding	1
Outside plastering, sanitary equipment (bathroom) inside decoration	1
Outside plastering, terrace reconstruction, thermal isolation, garage door	1
Outside plastering, thermal isolation, outside decoration	1
Outside reconstruction	1
Outside reconstruction of the house	1
Part of the carpentry, outside plastering, front door, roof	1
Part of the roof, garage, ceramic tiles in a bathroom and sanitary equipment	1
Plastering	2
Plastering, isolation	1
Purchase of material necessary for inside thermal isolation and sanitary equipment	1
Reconstruction of family house	1
Reconstruction of house	1
Reconstruction of house damaged during the war	1
Reconstruction of house hardly damaged by the war (inside carpentry, bathroom, water plumbing system, ceramic tiles, floors)	1
Reconstruction of house, (roofing tiles, windows)	1
Reconstruction of roof and chimney	1
Reconstruction of terrace and garage	1
Reconstruction of the attic	1
Reconstruction of the roof, inside decoration	1
Reconstruction of top floor	1
Redesign part of the house into business facility. Plastering, sanitary facilities, heating system.	1
Repay the debt for earlier done reconstruction, and to reconstruct some parts of the house. Painting walls and ceilings, isolation.	1
Roof	4
Roof, bathroom and reconstruction of bedroom	1
Roof, thermal isolation, attic, reconstruction of two rooms	1

Loan Activity (Initial Proposed Use)	Number
Sanitary facilities, carpentry, plastering	1
Stable renovation, roof of the house, to buy a mill, furniture and other equipment.	1
Stone bricks for the house	1
Terrace and floors in two rooms	1
Terrace fence, and house adaptation	1
Thermal isolation, carpentry, fence, inside decoration	1
Thermal isolation, carpentry, reconstruction of the porch	1
To build a family house	1
To build a garage	1
To build a stable	1
To build an outbuilding for chicken fattening	1
To change the attic into living area	1
To change the attic into living area	1
To change the roof	1
To complete construction works	1
To complete construction works	1
To complete reconstruction works on the house, and to rebuild out buildings	1
To complete reconstruction works (started through GOC reconstruction program) (painting walls, fence, footpaths, ceramic tiles, entrance roofing)	1
To complete reconstruction works on top floor (living area)	1
To extend the terrace, to concrete the garage, to fix the floor in a house.	1
To fix the roof	1
To rebuild the first floor of the house, and to build a garage	1
To rebuild the roof and to complete reconstruction works on a top floor.	1
To for the reconstruction of the house of residence	1
Up building to a family house (concrete walls and ironing)	1
Water plumbing installations, parquet	1
Wife didn't know what was planned use of the loan. She only knows that the money was used for repaying the dept. After she called her husband, he angry refused to discus about the loan at all.	1

10) What was the overall objective that you had when you obtained the loan?

- ☐ Improve your housing conditions ☐ Rehabilitate other buildings on your property
☐ Purchase equipment ☐ Purchase inventory for a business
☐ Start a business ☐ Other (*specify*)
-

162 Answers to Question

Objective	Number
Improve my housing conditions	150
Purchase equipment	1
Purchase inventory for a business	1
Rehabilitate other buildings on my property	5
Start a business	4
Other	1

Additional Objective

6 Answers to Question

Objective	Number
Improve my housing conditions	1
Purchase equipment	1
Rehabilitate other buildings on my property	1
Start a business	3

11) Have you received any of the money from the loan yet?

162 Answers to Question

Response	Number
Yes	162

12) Sometimes, things do not work out as planned due to changing priorities, such as family emergencies. Did you use the loan funds for the purposes that you had initially planned?

- ☐ Yes If no → What did you use the loan for?
☐ No

157 Answers to Question

Response	Number	Percentage
Yes	156	1.9
No	3	0.6

3 Answers to Question

If no, what did you use the loan for?	Number
Material is purchased and we are waiting for spring to come to complete wished works	1
Money is still in a bank, waiting for spring to come to start with the reconstruction	1
Money is still on bank account due to fact that it's impossible to start with works because of weather conditions.	1

13) What is the total cost of the investment activity, including all loans and other sources of funding that went into financing it, not just the loan from the lender?

156 Answers to Question

	Minimum	Maximum	Average
Amount	14,000 HRK	525,000 HRK	67,394.04 HRK

Lending Impacts

14) If not for the PBZ loan, what would have been your options in paying for the investment activity?

- ☐ Another bank loan ☐ A money lender in the community ☐ No other option
☐ A friend or family member ☐ Don't know

161 Answers to Question

Response	Number	Percentage
Another bank loan	72	44.7
Friend or family member	10	6.2
Money lender in the community	1	.6
No other option	61	37.9
Don't know	17	10.6

15) Next, I'd like to ask about the financial benefit you may have received by accepting a loan from PBZ, instead of financing that portion of the investment cost from some other source. Did you:

	Yes	No	D.K.
(d) Obtain a better interest rate than you would have from another lender?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) Obtain a longer term that you would have from another lender?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) Obtain a higher loan amount than another lender would have been willing to supply?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

162 Answers to Question

Better Interest Rate	Number	Percentage
Yes	153	94.4
No	1	0.6
Don't Know	8	4.9

133 Answers to Question

Longer Term	Number	Percentage
Yes	26	19.5
No	90	67.7
Don't Know	17	12.8

132 Answers to Question

Higher Loan Amount	Number	Percentage
Yes	22	16.7
No	87	65.9
Don't Know	23	17.4

16) What would the interest rate / payment have been for the amount of money you would have borrowed otherwise?

162 Answers to Question

Response	Number	Percentage
Don't know	72	44.4
Provided interest rate	89	54.9
Not applicable	1	0.6

Descriptive Statistics

	Statistic	Minimum	Maximum	Average
Low range of comparable interest rate	35	7.0	12.0	8.723
High range of comparable interest rate	23	8.0	15.0	10.826
Middle range of comparable interest rate (including actual given if applicable)	77	2.0	20.0	9.882

☐ Yes If yes → What
☐ No were
 they?

[illegible]

Response	Number	Percentage
Yes	13	8.0
No	149	92.0

What was other financial benefit?	Number
After opening a store husband and wife became employed, and with money earned from the store they are capable of repaying the loan debt.	1
Business improvement	1
By purchasing two heifers we started the co-operation with factory of milk products	1
Heating costs are reduced	1
Heating costs are reduced for 30%	1
No other info	1
Original capital to start a business	1
Rebuilding of Daughter's geodetic office resulted with higher number of clients.	1
Tax refund	1
To purchase plough and saw	1
To reduce heating costs	1
Were able to negotiate a better labor rate since the paid the workmen in cash	1
When we purchase cows, we will distribute home made milk, and by selling saws will insure ourselves an additional income	1

☐ Would have happened without the loan, but on a smaller scale, over a longer period, or with a delay

☐ Would not have happened at all without the loan

☐ Would have had some other outcome (Specify) _____

☐ Would have happened on about the same scale and same schedule

☐ Doesn't know/refuses to answer

Response	Number	Percentage
Doesn't know/refuses to answer	4	2.5
Would have had some other outcome (Specify)	6	3.7
Would have happened on same scale and same schedule	2	1.2
Would have happened without loan (smaller, longer, delayed)	85	52.5
Would not have happened at all without the loan	65	40.1

156 Answers to Question

Other Outcome	Number
It is possible that it would have happened without the loan, but over a longer period.	1
Other bank loan would have helped in realization	1
Other bank loan would help me in realization of planned activities	1
Other bank loan would help me in resolving earlier mentioned problems	1
Other bank loan would help me to complete all wished works	1
Other PBZ loan would cover the expenses of reconstruction	1
Some other loan	1

19) Do you feel that the investment activity that you used the loan to pay for has made your life any better? How?

162 Answers to Question

Response	Number	Percentage
Doesn't know/refuses to answer	157	72.2
Would have had some other outcome (Specify)	5	25.9

163 Answers to Question

How?	Number
Absolutely	1
After building a garage we don't need to be worried about the vehicle any more, and basic living conditions are improved	1
After the war, and house totally destroyed, we finally feel happy and joyful	1
All aspects of my life were improved	1
All of my basic living conditions are improved	1
All our needs are satisfied	1
All work that was planned, is now completed and the family now lives in the house	1
As soon as all works are completed, family will finally be able to live in their own house	1
Better living conditions in a house where they live.	1
Building was well damaged and it was quite unsafe to stay close to it until we rebuild it.	1
By changing floor into wooden one, thermal isolation is improved	1
By changing windows and new roofing tiles, house is warmer (no more wind)	1
By completing outside plastering works we have reduced our heating costs	1
By selling milk to a factory, we are earning some extra money	1
Central heating system improved our living conditions	1
Central heating system is installed and by that we have fixed one of our major problems	1
Children are happier	1
Children now have their own rooms and it improved our living conditions	1
Direct hit with a grenade in the roof, now there is not more water coming inside	1
Family feels nicer than before, and all members are satisfied with works.	1
Happy and satisfied because one of family housing problems is solved	1
Health conditions are improved due to a fact that before investment, house was very humid	1
Heating and widening of the living area	1
Heating costs are reduced	3
Heating costs are reduced	1
Heating costs are reduced and house is warmer	1
Heating costs are reduced and living conditions are improved	1
Heating costs are reduced, and house looks nicer	1
Heating is improved	1
House damage was of 6 th category, can you imagine what kind of living conditions we had before the investment.	1
House has better insulation now (roof)	1

How?	Number
House looks nicer	1
Housing problems are finally solved. There is no more need to live as tenants.	1
Husband and wife are now employed and children are secured for the future	1
I am so satisfied with changes that I have done in my apartment, I even don't want to go out of it.	1
If I couldn't get that loan, I would have to reject some other things	1
Improved living conditions.	1
Improved living conditions	1
Improved housing conditions, heating cost are reduced	1
Improved living conditions	2
Improved living conditions	1
Improved living conditions.	1
Improved living conditions.	8
In a spring time we will move into our reconstructed house	1
In one month family will move into their newly reconstructed house	1
In that way we will move into reconstructed house	1
Investment activity helped us in returning to our home.	1
It certainly did	1
It helped psychologically; They will finally complete all works that they want to.	1
It improved my living conditions	1
It improved my living conditions	3
It improved our living conditions	1
It improved the look of an interior	1
It is warmer and heating costs are reduced	1
It is warmer in a house	1
It is warmer in a house, and we finally changed the roof and bathroom	1
It is warmer in a house, comfort of life is improved	1
It reduced heating costs, and positively affected our health (no more damp)	1
It will improve in the future when all the reconstruction works will be completed.	1
It would improve my living conditions	1
It would improve our living conditions, cause we would rebuild rooms for children and sanitary facilities	1
Living area is bigger than it was	1
Living area is bigger, and we have improved the comfort of life	1
Living conditions are improved	1
Living condition are improved	1
Living conditions are improved	18
Living conditions are improved	2
Living conditions are improved and am very satisfied with it.	1
Living conditions are improved and family is ready to move to their house	1
Living conditions are improved with reduction of heating costs	1
Living conditions are improved.	1
Living conditions are well improved	1
Living space is bigger	1
Living space is bigger than it was before investment.	1
Living standard raised to a higher level	1
Many problems will be solve as soon as we complete the works	1
Most of planned works are now completed and now we've secured our selves with basic living conditions	1
New and permanent employment.	1
No more problems with water pipes and floats	1
No other info	1
Now we have a new living space	1
Our life conditions are improved, but due to a fact that all works are still not completed, we expect that it will be	1

How?	Number
even more improved.	1
Our living conditions are partially satisfied	1
Partially it improved the living conditions	1
Personal satisfaction	1
Planned works are completed, and quality of life is finally improved	1
Pleasance of new home	1
Quality of life is in higher level, central heating reduced costs of heating	1
Quality of living	1
Reconstruction works are nearly completed	1
Roof is repaired	1
Security reasons, garage was damaged	1
Significantly improved living conditions.	1
Some of things, necessary for basic life are finally completed	1
Still in process, but when we complete all works we will improve our living conditions.	1
The roof is not leaking any more	1
The roof was badly damaged and by repairing it all living conditions were improved	1
Thermal insulation - it's warmer in the house and reduced bills	1
These works improved basic living conditions and it made all works on land easier than before.	1
To improve living conditions and to reduce heating costs	1
To protect movable property	1
Try to imagine the a life in 21st century, with no windows and doors, and with no toilet and bathroom	1
Two additional rooms have improved the quality of our lives	1
Warmer house, children have their own rooms (place for them to learn and to play)	1
We've added thermal insulation, done some carpentry work, exterior plaster	1
We've completed outside plastering and the façade	1
We are finally ready to move into the new house	1
We feel much nicer in our home (it's like new)	1
We improved our living conditions	1
With all work that was done in the house, the feel more comfortable	1
With central heating system, quality of life is well improved	1
With compellation of outbuilding existence of family members is improved	1
With fixing the roof and new heating system our living conditions rapidly improved	1
With new roof and carpentry costs of heating are reduced	1
With no loan borrowed, none of wished works could be completed	1
With the construction of three additional rooms, each child got his/hers private room	1
With the reconstruction of new house, living conditions will be improved due to a fact that entire family will move from old devastated house into a new one	1
With this loan they have satisfied their children wishes and needs	1
Without the loan I could not complete the works that I wanted to. And it improved my living conditions.	1
Yes, with no DCA loan we could not insure for ourselves basic living conditions.	1

20) In carrying out the investment activity, did you hire a tradesperson in your community?

162 Answers to Question

Response	Number	Percentage
Yes	120	28.6
No	42	71.4

- 21) Approximately what share of the loan funds that you or your contractor spent on building materials, equipment, etc. was spent at a local store in this municipality?

Specify a rough %: _____ %

If less than 50% was spent locally, where were most of the materials purchased?

159 Answers to Question

Minimum Percentage	Maximum Percentage	Average
0	100	75.13

163 Answers to Question

60% spent in Karlovac, the rest is spent on work me	1
It is not bought yet. Money is in a bank.	1
Karlovac	2
Karlovac, Zagreb	1
Sisak	2
Sisak and Velika Gorica	1
Sisak, Kutina	1
Sisak, Petrinja	1
Sisak, Zagreb	1
Some of the money is still in a bank.	1
The rest of the money was spent in Zagreb	1
Waiting for spring to come to purchase the material	1
Zagreb	1

Formalized Borrowing & Customer Satisfaction

- 22) How did you hear about the PBZ home improvement loans?

- | | | |
|--|---|---|
| <input type="checkbox"/> Radio | <input type="checkbox"/> In a PBZ branch | <input type="checkbox"/> Information officer |
| <input type="checkbox"/> Word of mouth | <input type="checkbox"/> NGO | <input type="checkbox"/> Government official |
| <input type="checkbox"/> Newspapers | <input type="checkbox"/> Presentation, workshop, or another public event. | <input type="checkbox"/> Other (<i>specify</i>) |

163 Answers to Question

Radio?	Number	Percentage
Yes	58	35.6
No	105	64.4

163 Answers to Question

Word of Mouth	Number	Percentage
Yes	36	22.1
No	127	77.9

163 Answers to Question

Newspapers	Number	Percentage
Yes	7	4.3
No	156	95.7

163 Answers to Question

In PBZ Branch	Number	Percentage
Yes	51	31.3
No	112	68.7

163 Answers to Question

At an NGO	Number	Percentage
Yes	0	0
No	163	100

163 Answers to Question

Presentation, Workshop or Other Public Event	Number	Percentage
Yes	3	1.8
No	160	98.2

163 Answers to Question

Information Officer	Number	Percentage
Yes	11	92.6
No	152	0.6

163 Answers to Question

Government Official	Number	Percentage
Yes	0	0
No	163	100

163 Answers to Question

Other	Number	Percentage
Yes	10	6.1
No	153	93.9

Specify Other	Number	Percentage
DCA poster posted by IO.	1	1.9
Friend	1	100.0
Neighbor	1	
Posters	7	

23) Which PBZ branch did you borrow the money from (which town)?

161 Answers to Question

Beli Manastir	14	8.7
Daruvar	7	4.3
Djakovo	1	.6
Dubrovnik	1	.6
Gospic	1	.6
Karlovac	24	14.9
Knin	1	.6
Kostajnica	11	6.8
Kutina-Pakrac	3	1.9
Kutina	3	1.9
Novska	19	11.8
Okucani	1	.6
Osijek	10	6.2
Otocac	1	.6
Pakrac-Kutina	2	1.2
Pakrac	17	10.6
Sisak	19	11.8
Slavonski Brod	3	1.9
Vinkovci	20	12.4
Virovitica	2	1.2
Zupanja	1	.6

24) Was it difficult for you to travel to the PBZ office to apply for the loan? Why?

162 Answers to Question

Response	Number	Percentage
Yes	13	8.0
No	149	92.0

Why	Number
Because of the distance between Ilok and Osijek	1
Have to travel many times because of all the documents needed	2
It takes a lot of time to get all necessary documents	1
Many long travels	1
Number of travels	2
Number of travels to the bank	1
Public transport is bad, and number of travels needed to complete the application	1
Public transport is not well organized	1
Time necessary to get to the bank, and no option to agree about some details by the phone	1

25) Have you ever borrowed money from a bank before?

What was/were the loan(s) for?

☐ Car loan

☐ Mortgage/housing loan

☐ Consumer loan

☐ Other (*specify*)

☐ Business loan

158 Answers to Question

Response	Number
Yes	104
No	54

158 Answers to Question

Car Loan	Number	Percentage
Yes	26	16.5
No	132	83.5

158 Answers to Question

Consumer Loan	Number	Percentage
Yes	32	20.3
No	126	79.7

158 Answers to Question

Business Loan	Number	Percentage
Yes	9	5.7
No	149	94.3

158 Answers to Question

Mortgage/Housing Loan	Number	Percentage
Yes	47	29.7
No	111	70.3

158 Answers to Question

Other	Number	Percentage
Yes	2	1.3
No	156	98.7

Number of Uses That People Have Taken Out Loans For

Number of Uses	Number	Percentage
0	63	38.7
1	87	53.4
2	11	6.7
3	1	.6
4	1	.6

Specify Other Use	Number
To build the house	1
To buy a tractor	1

26) Not including the loan we've been talking about, what was the largest loan you've ever taken out from a bank (for how much money)?

97 Answers to Question

Minimum	Maximum	Average
5,000	278,000	63,365.98

27) What bank(s) did you borrow the money from? _____

104 Answers to Question

Response	Number
American Express Card, Revolving Credit	1
Beo Banka	1
Erste und Steiermarkische Bank	2
HBOR	1
Not a bank but a sales company	1
Karlovacka Bank	7
Komercijalna Banka Karlovac	1
Ljubljanska Banka	2
Nova Banka	2
PBZ Bank	40
Raiffeissen Bank	7
Rijecka Banka	3
Sisacka Banka	5
Slatinska Banka (Erste)	1
Slavonska Banka	5
Volksbank	3
Vukovarska	3
Yugo Banka	1
Zagrebacka Banka	18

Previous Loan with PBZ (for those who had loans with more than one bank)

Response	Number	Percentage
No other loans (PBZ or other bank)	54	34.2
Received another PBZ loan	42	26.6
Received another loan from another bank, no other PBZ loans	62	39.2

28) Did you have any guarantors or co-debtors on the PBZ loan that we've been talking about?

If yes →

(# guarantors)

Relationship to the guarantor(s)

(# co-debtors)

Relationship to the co-debtor(s)

162 Answers to Question

Response	Number	Percentage
Yes	147	90.7
No	15	9.3

Number of Guarantors	Number of Co-debtors
130	54

130 Answers to Question

Number of Guarantors	Number	Percentage
1	113	86.9
2	16	12.3
3	1	.8

130 Answers to Question

Guarantor	Number
Brother	5
Colleague	8
Cousin	3
Daughter's Colleague	1
Daughter-in-law	1
Daughter	4
Family member	22
Family Members	2
Friend	48
Friends	12
Husband	2
Mother	1
Neighbor	1
Parent	1
Sister	1
Son-in-law	1
Son	6
Son and Wife	1
Sons	1
Uncle	2
Wife	6
Wife and Aunt	1

54 Answers to Question

Number of Co-debtors	Number	Percentage
1	51	94.4
2	3	5.6

54 Answers to Question

Co-Debtor	Number
Brother-in-law	1
Brother	2
Cousin	2
Daughter	4
Family Member	1
Family Members	14
Friend	11
Friend	2
Friend & Family Member	1
Friend of the Family	1
Husband	6
Relatives	1
Sister	1

Co-Debtor	Number
Son-in-law	1
Son	4
Wife	2

54 Answers to Question

Relationship to Co-debtors (family or friends)	Number	Percentage
Family member(s)	39	72.2
Friend(s)	14	25.9
Family member and friend	1	1.9

29) Was it difficult for you to find people who could serve as guarantors or co-debtors?

If yes → What were the difficulties?

147 Answers to Question

Response	Number	Percentage
Yes	36	24.5
No	111	75.5

What were the difficulties?	Cumulative Percentage
All potential borrowers already have some credit obligations	3.1
All potential guarantors are already guarantying for other people and they were not eligible anymore	3.7
Banks underwriting criteria on eligible guarantors and co-debtors	4.3
Because the cousins were already a guarantors someone else at the time	4.9
Co-debtor and guarantor are not eligible if both are employed in same company. Only third possible guarantor was accepted	5.5
Co-debtor is not eligible if he is employed at the same company as borrower	6.1
Guarantor is not allowed to be employed by the same company as borrower; eligible amount of monthly income is to high	6.7
I applied for the loan two times, due to fact that potential guarantors were not eligible according to underwriting criteria of the bank.	7.4
It was difficult to find an eligible guarantor due to a fact that most of potential ones already are someone's guarantors or have the loan of their own	8.0
It was difficult to find an eligible guarantor due to a fact that most of them already have some other credit obligations	8.6
It was difficult to find one, because people are already guarantors and co debtors	9.2
It was hard to find eligible co-debtor or guarantor	9.8
Low level of trust	10.4
Low number of regularly employed people	11.0
Many people are already in debt of their own and are not willing to be guarantors	11.7
Many people are not willing to become guarantors, question of trust	12.3
Monthly income was not sufficient for him to became eligible borrower, and he had problems in finding a co-debtor.	12.9
Most neighbors already have a loan and also they are reluctant to be guarantors because of bad experience with similar situations.	13.5

What were the difficulties?	Cumulative Percentage
Most of potential borrowers are already someone else's guarantors	14.1
Most of potential guarantors are social welfare beneficiaries, and due to a fact that we are returnees no one wants to be our guarantor	14.7
Most of potential guarantors were already someone else's guarantor.	15.3
Most of potential guarantors were not eligible due to their small income, age and are not employed at the state owned company.	16.0
Most of the people already have a loan or they are already someone's guarantors or co-debtors.	16.6
Not applicable	93.3
People are afraid to be someone's guarantor or co-debtor	93.9
People are afraid to be a guarantor	94.5
People who live in the area, are mostly elderly people, and due to their age they are not eligible to be a guarantor	95.1
Potential guarantors were not eligible due to a fact that their monthly income was not sufficient and most of them already have had their own loans	95.7
Potential guarantors already have other loan obligations or are someone else's guarantors and they are not eligible any more	96.3
Potential guarantors were not eligible due to PBZ underwriting criteria	96.9
Problems with guarantors, two of potential guarantors were rejected by the bank	97.5
The guarantor is not eligible if he is employed in the same company as borrower, and pensioners are not eligible because of their age	98.2
The potential guarantors or co-debtors already have credit obligations.	98.8
To transfer monthly income into PBZ	99.4
Two days after receiving all documents and checking it out, PBZ official called to tell us that one of our guarantors was rejected	100.0

30) Did you want to borrow more money than you actually did?

161 Answers to Question

Response	Number	Percentage
Yes	77	47.8
No	84	52.2

31) What prevented you from borrowing more money?

- | | |
|---|--|
| <input type="checkbox"/> Based on my income, the bank was only willing to lend me this amount of money. | <input type="checkbox"/> I wanted to see how the investment activity went and then will borrow more money. |
| <input type="checkbox"/> The bank was not willing to lend me more money based on the investment activity. | <input type="checkbox"/> I wanted to pay off the first loan before taking out an additional loan. |
| <input type="checkbox"/> I couldn't afford additional loan payments. | <input type="checkbox"/> Other (specify) |

79 Answers to Question

Response	Number	Percent
Limited by income & couldn't make higher loan payments	1	1.3
Limited by income & other	3	3.8
Limited by income	27	34.2
Investment activity	4	5.1
Couldn't afford additional loan payments & other	2	2.5
Couldn't afford additional loan payments	12	15.2
Want to see how investment activity goes	2	2.5
Other reason	28	35.4

33 Answers to Question

Response	Number
Age	1
Age limit	1
Amount was limited by the bank	1
Bank did not approve higher amount. There was no explanation why	1
Bank is allowing only limited amount of money	1
Bank limited the amount up to 10000	1
Bank set a limit	1
Bank want allowed me larger amount because of estimation of apartment value was not high enough	1
Because the house is owned by more than one owner and it was difficult to get the power of attorney for putting the mortgage on the house.	1
Did not want to put my house under mortgage	1
Did not want to use house as collateral	1
Due to borrowers age, bank allowed me to borrow specific amount of money	1
Expenses for mortgage loan were to high	1
For more than 5000 Euros mortgage is necessary	1
He did not want to put mortgage on the house	1
I could not borrow more money since I already have another loan with PBZ	1
I did not to put my house under mortgage	1
If I knew that I will have to use my house as collateral for the amount of 5000 Euros, I would us the opportunity and borrowed more money	1
Limit of a loan	2
Limit of a loan	1
Loan was limited to 8500 Euros	1
Maximum amount	1
Monthly rate would need to be higher, and we could not afford it	1
Mortgage, age	1
Mortgage	3
Mortgage	1
Mortgage as one of the conditions	1
Necessary amount needed to all works was higher than the amount that was approved by the bank.	1
Time needed to obtain all necessary documents would be to long.	1
Value of my house is much higher than the amount of the loan, due to that fact I didn't want to put my house under mortgage	1

32) On a scale of 1 – 5, how did you find the loan application process (1 – very simple, 5 – very complex)

162 Answers to Question

Responses	Minimum	Maximum	Average
162	1	5	2.05

33) On a scale of 1 – 5, please rate how burdensome it was for you complete all of the paperwork that was needed to be approved for the loan. (1 – not burdensome at all, 5 – very burdensome)

162 Answers to Question

Response	Minimum	Maximum	Average
162	1	5	2.38

34) What was the most difficult aspect of applying for the loan?

- ☐ Nothing was difficult ☐ Getting the paperwork from my employer (if any) ☐ Other (specify)
☐ Getting title documents
☐ Finding a guarantor or co-debtor ☐ Filling out the application

162 Answers to Question

Response	Number	Percentage
Filling out the application	1	0.6
Finding a guarantor or co debtor	27	16.7
Getting title documents	58	35.8
Nothing was difficult	61	37.7
Other	15	9.3

Other	Number
Also getting title documents.	1
And finding guarantors and co debtors	1
And getting title documents	1
And getting title documents,	1
Annual leaves in PBZ, beneficiary was waiting for more then one month to get the loan and also question of court certified appraisal.	1
Bank costs for producing the loan are to high	1
Cadastral certificate, cost estimate	1
Court certified appraisal	1
Court certified appraisal's office	1
Expenses of the loan were really high	1
Finding guarantors and co debtors	1
Getting title documents	2
Insurance	1
It was difficult to find a court certified appraisal's office	1
It was difficult to find Court certified Architect who is eligible to make cost estimate of works.	1
Land records registering	1
Many travels to PBZ for because same reason	1
Next to the mortgage that was necessary, I needed two extra co debtors to become eligible for a loan.	1
No details	1
Non satisfaction with loan officers	1
Price of cost estimate	2
Registering property at the cadastral office	1
Some problems appeared while obtaining title documents	1
To find co-debtors and guarantors	1

Other	Number
To make cost estimate	1
Transferring my account to PBZ	1
We have had to wait for more than a month due to fact that that loan officer was on vacation.	1

35) On a scale of 1 – 5, how did you rate the helpfulness of the PBZ loan officer? (1 – excellent, 5 – poor)

161 Answers to Question

Response	Number
1 (excellent)	108
2	18
3	18
4	8
5 (poor)	9

Descriptive Statistics

Responses	Minimum	Maximum	Average
161	1	5	1.71

36) Did the PBZ loan officer clearly explain the difference between the requirements for guarantors and co-debtors?

162 Answers to Question

Response	Number	Percentage
Yes	138	85.2
No	24	14.8

37) Did the PBZ loan officer clearly explain other loan terms and conditions?

162 Answers to Question

Response	Number	Percentage
Yes	138	85.2
No	24	14.8

38) On a scale of 1 – 5, please rate how easy the Bank's written forms and procedures were to understand. (1 – very easy, 5 – very difficult)

159 Answers to Question

Responses	Minimum	Maximum	Average
159	1	5	1.77

39) Did the PBZ loan officer provide clear explanations of the written forms and procedures if you found it difficult to understand them?

160 Answers to Question

Response	Number	Percentage
Yes	127	79.4
No	33	20.6

40) Did you have any contact with an Urban Institute information officer during the loan process?

- ☐ No
☐ Met individually with an information officer
☐ Attended a session about the loans organized by an information officer
☐ Other (specify)

163 Answers to Question

Response	Number	Percentage
Met individually with an information officer	20	12.4
No	137	85.1
Other	2	1.2
Attended a session about the loans organized by IO	2	1.2

Specify Other	Number	Percentage
Phone Contact	2	1.2

41) On a scale of 1 – 3 (1 – not helpful, 2 – helpful, 3 – very helpful), how would you rate the information officer's assistance?

24 Answers to Question

Response	Number	Percentage
2 (Helpful)	4	16.7
3 (Very Helpful)	20	83.3

Responses	Minimum	Maximum	Average
24	2	3	2.83

42) Thinking back on your loan, is there any kind of assistance you wish had been available, such as financial advice?

If yes → What kind of assistance would have been most helpful?

109 Answers to Question

Response	Number	Percentage
Yes	46	42.2
No	63	57.8

163 Answers to Question

Responses	Number
No Information Entered	4
Advice on business investments	1
Advice on different projects related to employment	1
Any advice on any of loan products that banks are offering	1
Any financial advice	1
Any help related to guarantors eligibility	1
Any information would make the process simpler	1
Any kind of counseling	1

Responses	Number
Any kind of financial advice	1
Any kind of financial advice	3
Any kind of financial advice, and some assistance related to paperwork	1
Basic conditions related to the application process	1
Clear communication with PBZ officials	1
Communication with PBZ was on low level, and some assistance related to that would be of great help	1
Complete description of application process, and explanation of interest rate	1
Detailed explanation on the difference of currency. Referring to the mistake written in PBZ leaflet	1
Explanation related to guarantors and co-debtors	1
Financial advice	4
Financial advice and help in finding court certified appraisal's office	1
Financial advices related to the start of business	1
Help in communication with the bank	1
Help in obtaining necessary documentation	1
Information about better interest rate and better loans	1
Information about estimation of incomes	1
Information about fluctuation of an interest rate, and explanation on currency clause	1
Information about necessary documentation	1
Information about similar kind of loans that could help people who live in ASSC to live with dignity and pride	1
Information about some additional loan products that could be used for the compellation of reconstruction works	1
Information related to documentation necessary to obtain loan	1
Information about income estimate for the loan	1
It would be nice if a bank would higher information officers who would introduce us to necessary information related to loan products	1
It would be nice if banks would hire a person who would only be responsible for the distribution of linformation. Especially information related to acceptable loans	1
List of documents needed for loan application	1
No response	54
Not applicable	63
Short term loans (small amounts)	1
To get the information about other loan products under that criteria	1
Underwriting criteria	1
Yes, every financial advice is useful, especially if it is about acceptable loans	1

43) Are there other people that you know of in this community who have not yet obtained loans, but would like to access a property improvement loan?

162 Answers to Question

Responses	Number	Percentage
Yes	77	47.5
No	85	52.5

44) Are there additional banking services that you are interested in which are not currently available in your community?

If yes → What are they?

162 Answers to Question

Response	Number	Percentage
Yes	34	21
No	128	79

163 Answers to Question

Response	Number
no information entered	1
All other services	1
All other services	1
All other services that bank is offering	1
ATM	2
ATM, savings	1
ATM, savings account	1
Business and SME loans	1
Credit cards	1
He is already using all bank services (checks, etc.)	1
Housing savings	4
I am their client for more than 12 years and am using all bank services.	1
Interested into loan products up to 30000 kuna	1
Internet banking	2
Internet banking, savings, regular bank account, pension fund	1
More information about housing savings	1
No response	1
Not applicable	128
Pension fund	2
Regular bank account	1
Regular bank account and savings account	1
Savings	3
Savings account	1
Savings account, but unfortunately it is impossible at the moment	1
Savings and ATM	1
Savings, ATM	1
She is already using all bank services – everything offered	1
Short term loans	1

45) Are you considering the idea of taking out another loan in the future (from either PBZ or another bank)?

If yes → What for?

162 Answers to Question

Response	Number	Percentage
Yes	124	76.5
No	38	23.5

163 Answers to Question

Response	Number
no information entered	3
Additional works on house	1
Agricultural loan	1
Bathroom	1
Car	1
Central heating system	1
Completion of family house	1
Completion of reconstruction works, inside decoration of the house	1
Construction and reconstruction	1
Consumers loan	1
Continue with reconstruction works	1
Craft	2
Credit for business purposes, for self-employment	1
Finishing the works on the house.	1
For business purposes	1
For further improving of living conditions	1
For other works on the house and surrounding.	1
Further decoration of the house	1
Further reconstruction of family house	1
Further reconstruction of the house	1
House compellation	1
House improvement and to complete reconstruction works	1
Housing credit	1
Housing loan and agricultural loan.	1
Housing loan to complete all wished reconstruction works (to improve living area)	1
Housing loan to complete the whole house. Only a small portion of the house was reconstructed.	1
Housing loan, again	1
Housing solution and purchase of vehicle	1
Inside decoration	1
Life improvement, and business	1
No response	1
Not applicable	38
Outside plaster	1
Outside plastering	1
Purchase a vehicle and to continue with the reconstruction	1
Purchase of equipment	1
Purchase of vehicle and other works on a house	1
Purchase vehicle or to complete reconstruction work	1
Reconstruction of family estate	1
Reconstruction of parent's house	1
Regular bank account	1
Short-term loan for a small amount of money	1
Similar kind of a loan	1
Start a business	1
Still don't know for what purpose!	1
Still don't know, thinking about it	1
To build a house	1
To build outbuildings	1
To build up one more floor	1
To buy a car for my son	1
To buy agricultural equipment such as a tractor	1
To complete all reconstruction works	4
To complete all reconstruction works on our family house	1
To complete all reconstruction works on the house	1

Response	Number
To complete all reconstruction works that were planned. They would like their house to look the same as it looked before the war	1
To complete all started work	1
To complete all wished reconstruction works	1
To complete all wished works on a house	1
To complete all works	1
To complete all works related to chicken farm	1
To complete construction works on house	1
To complete reconstruction works on house	1
To complete reconstruction works	2
To complete reconstruction works	1
To complete reconstruction works and to start SME	1
To complete reconstruction works on a family house	2
To complete reconstruction works on a house	2
To complete reconstruction works on a weekend house	1
To complete reconstruction works on family house	1
To complete reconstruction works on house, and to start business	1
To complete reconstruction works on my house – they are living with son and daughter – they want to create some outbuildings and generally finish the house to make it like it was before the war.	1
To complete reconstruction works on outbuildings	1
To complete reconstruction works on the flat	1
To complete reconstruction works that were not completed with DCA loan.	1
To complete started reconstruction works	1
To complete the house and improve living conditions	1
To complete the house, and to redecorate it	1
To complete the renovation of the house	1
To continue with all works that were not covered with DCA loan	1
To continue with adaptation	2
To continue with construction and business loan	1
To continue with construction works	2
To continue with home improvement	1
To continue with house construction	1
To continue with house improvement	1
To continue with the adaptation	5
To continue with the adaptation	1
To continue with the decoration of the house	1
To continue with the reconstruction	1
To continue with the reconstruction of the house	1
To decorate the rest of the house	1
To expand the business	1
To finish my house	1
To help children by building their own houses	1
To improve life and living standard	1
To improve standard	1
To purchase car or a vehicle	1
To purchase a vehicle	5
To purchase an apartment	1
To purchase an apartment for children	1
To purchase apartment	1
To realize some basic needs of life	1
To repay reconstruction debt and to rebuild one part of the house into SME facilities	1
To start business	1
To complete reconstruction works (not PBZ)	1
Vehicle purchasing.	1
We will consider the purpose when we pay the current loan.	1

Borrower Characteristics & Loan Performance

46) People can sometimes fall behind on loan payments for many reasons, such as unexpected costs or changes in employment status. In this instance, are you finding it difficult to repay your loan because of some unexpected costs?

If yes → Which unexpected costs are a problem?

153 Answers to Question

Response	Number	Percentage
Yes	11	7.2
No	142	92.8

163 Answers to Question

Response	Number	Percentage
no information entered	1	.6
6 family members and only one income	1	.6
Education of my children is expensive	1	.6
Employer is not transferring my salaries on time.	1	.6
Getting goods for the store.	1	.6
I am single parent, and live together with my mother and brother. No one besides me is employed.	1	.6
Making payments to the government to pay for her flat (MORTGAGE PAHYMENT)	1	.6
No response	10	6.1
Not applicable	142	87.1
One of family members passed away recently, and beneficiary experienced un planned costs	1	.6
Social welfare is the only source of income.	1	.6
Son, daughter in and grandson live together with them and they are not employed	1	.6
There is no actual unexpected costs but the beneficiary is unemployed	1	.6

47) What is the current status of your loan with PBZ?

Yes

a) Are payments current and up-to-date?

☐

b) Is it more than 60 days delinquent?

☐

c) Is it in the process of foreclosure?

☐

d) Other

154 Answers to Question

Are the payments current and up-to-date?	Number	Percentage
Yes	154	100

154 Answers to Question

Is it more than 60 days delinquent?	Number	Percentage
No	154	100

154 Answers to Question

Is it in the process of foreclosure?	Number	Percentage
No	154	100

1 Answer to Question

Other?	Number	Percentage
It is done by employer (automatic payment)	1	.6

48) Do you anticipate that you will have any problems making payments in the future?

- ☐ Yes If yes → Why do you think you will have problems making payments in the future?
☐ No
☐ N.A.

149 Answers to Question

Response	Number	Percentage
Yes	10	6.7
No	139	93.3

163 Answers to Question

Why do you feel that way?	Number	Percentage
no information entered	1	.6
Because of daughter employment.	1	.6
Dependence on pension	1	.6
Employment status	1	.6
It dependence on my employment status if borrower will be capable to cover the expenses	1	.6
It depends of employment status.	1	.6
It depends on employment status	1	.6
Living expense are really high	1	.6
No response	9	5.5
Not applicable	144	88.3
Unemployed	1	.6
Unemployment of other family members	1	.6

Income-related questions

49) What is your working situation?

- | | |
|--|--|
| <input type="checkbox"/> Employed full-time - GOC, public institutions | <input type="checkbox"/> Employed part-time - GOC, public institutions |
| <input type="checkbox"/> Employed full-time - private company (LTD) | <input type="checkbox"/> Employed part-time - private company (LTD) |
| <input type="checkbox"/> Employed full-time - SME & Crafts | <input type="checkbox"/> Employed part-time - SME & Crafts |
| <input type="checkbox"/> Owner / Co-owner – private company | <input type="checkbox"/> Unemployed, seeking work |
| <input type="checkbox"/> Owner / Co-owner – SME & Crafts | <input type="checkbox"/> Unemployed, not seeking work |
| <input type="checkbox"/> Retired | <input type="checkbox"/> Other |
-

162 Answers to Question

Response	Number	Percentage
Employed fulltime (GOC or public institutions)	70	43.2
Employed fulltime (private company LTD)	25	15.4
Employed fulltime (SME & Crafts)	13	8.0
Employed part time (GOC or public institutions)	1	.6
Other	1	.6
Owner or Co-owner (SME & Crafts)	4	2.5
Owner or Co-owner (private company)	3	1.9
Retired	32	19.8
Unemployed & not seeking work	1	.6
Unemployed & seeking work	12	7.4

2 Answers to Question

Other	Number	Percentage
Agriculture	1	.6
Social welfare beneficiary	1	.6

50) Please tell me which of the following categories best reflect the primary source of your income

- | | |
|---|---|
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Construction or other technical work |
| <input type="checkbox"/> Manufacturing – large company | <input type="checkbox"/> Pension or other government benefit |
| <input type="checkbox"/> Services (mechanic, café owner, construction tradesperson, beautician) | <input type="checkbox"/> Sales |
| | <input type="checkbox"/> Unregistered employer |
| | <input type="checkbox"/> Other |

160 Answers to Question

Response	Number	Percentage
Agriculture	6	3.8
Construction	2	1.3
Manufacturing	3	1.9
Other	97	60.6
Pension or other government benefit	34	21.3
Sales	4	2.5
Services (such as mechanic or café owner)	14	8.8

Primary Source of Income (combination of PBZ and survey data)	Number	Percentage
Agency for unemployed people	6	3.7
Agricultural and military pension	1	.6
Agricultural school Pozega	1	.6
Agriculture	1	.6
Agricultural producer	1	.6
Agro Simpa d.o.o.	1	.6
AM- Adria d.o.o.	1	.6
Bolnica za med. Rehabilitaciju	1	.6
CEDRUS (owner of café bar)	1	.6
Center for Social services	1	.6
Clerk	1	.6
Communal Company	1	.6
County hospital	1	.6
County office	1	.6

Primary Source of Income (combination of PBZ and survey data)	Number	Percentage
Craft	1	.6
Craft/shop	1	.6
Craftsmen	10	6.1
Croatian railways	3	1.8
Croatian woods	2	1.2
DARKOM	1	.6
Dispatcher	1	.6
Dom zdravlja	1	.6
ENERGO ltd.	1	.6
Fireman	1	.6
High School	4	2.5
Hospital	6	3.7
Hospital Vinkovci	1	.6
Housewife	2	1.2
Hrvatske poste (postal service)	2	1.2
Hrvatske sume (forestry)	3	1.8
HRVATSKE ZELJEZNICE (Croatian Railways)	2	1.2
HZMIO Bjelovar	1	.6
HZZMO	1	.6
INA d.d. (oil industry)	3	1.8
INA int. Petrol company	1	.6
Intersped Vukovar	1	.6
Iron factory	1	.6
IV-ER-KVC Ltd.	1	.6
Karlovac Prison	1	.6
KARLOVACKA TISKARA	1	.6
Kim mljekara	1	.6
Kindergarten "Cvrcak"	1	.6
KOMUNALIJE d.o.o.	1	.6
Konzum dd. Zagreb	1	.6
Local government	4	2.5
MANASTIR d.o.o	1	.6
Marin Drzic Theater, Dubrovnik (actor)	1	.6
Marketing	1	.6
MECHEL int. iron company	1	.6
Ministry of agriculture	2	1.2
Ministry of Finances	2	1.2
MORH	1	.6
Municipal court	1	.6
MUP RH	1	.6
Niki d.o.o (trade craft)	1	.6
PAK konstruktor (SME)	1	.6
Part time job	1	.6
Pemzlic d.o.o	1	.6
Pensioner	27	16.6
Pensioner (and rental income)	1	.6
Pero Radanovic d.o.o	1	.6
PETROKEMIJA (Oil refinery)	1	.6
Police	2	1.2
Posilovic D. (mobile communications company)	1	.6
Pounje d.d.	1	.6
PPK-Karlovac	1	.6
Primary school	4	2.5
Primary school (principal)	1	.6
Primary school Novska (teacher)	6	3.7

Primary Source of Income (combination of PBZ and survey data)	Number	Percentage
Primary school Nustar(principal)	1	.6
Professional driver	1	.6
Project bureoe Pakrac d.d.	1	.6
public institutions	1	.6
Sales person	1	.6
School teacher	1	.6
Sisak moslavina county	1	.6
SME owner	1	.6
SME "Sandrapom" ltd.	1	.6
SRCE d.o.o.	1	.6
Steel factory	1	.6
Trgo-centar d.d. (SME)	1	.6
Un-employed	1	.6
Unemployed	1	.6
Unemployment Compensation	1	.6
Veterinary ambulance Novska	1	.6
VODOPRIVREDA	1	.6
Vojtek d.o.o.	1	.6
VUPIK (meat factory)	1	.6
Welfare	1	.6
Zece novi d.o.o.	1	.6

51)

a. Was it more difficult for you to obtain the loan from PBZ because you work for an unregistered employer or are self-employed?

If yes → What difficulties did you encounter with PBZ?

b. Were you ever rejected by another lender because you worked for an unregistered employer or are self-employed?

If yes → Please describe the type of loan you were seeking and the reasons the bank turned down your loan.

7 Answers to Question

51) a. Response	Number	Percentage
Yes	2	28.6
No	5	71.4

163 Answers to Question

What difficulties did you encounter?	Number	Percentage
no information entered	1	.6
He had to have a co-debtor because he does not have a regular income	2	1.2
Not applicable	160	98.2

8 Answers to Question

51) b. Response	Number	Percentage
Yes	2	25
No	6	75

163 Answers to Question

Please describe the other loan you were seeking	Number	Percentage
Agricultural loans given by county	1	.6
Not applicable	161	98.8
Same kind of loan	1	.6

52) What was your total, personal income in 2003 from all sources including formal and informal employment, pensions, rental income, government subsidies, and remittances?

138 Answers to Question

Responses	Minimum	Maximum	Average
138	0	130,000	42,767.83

53) What was your total, household income in 2003 (including all members of the household) from all sources including formal and informal employment, pensions, rental income, government subsidies, and remittances?

133 Answers to Question

Responses	Minimum	Maximum	Average
133	5,500	160,000	70,702.41